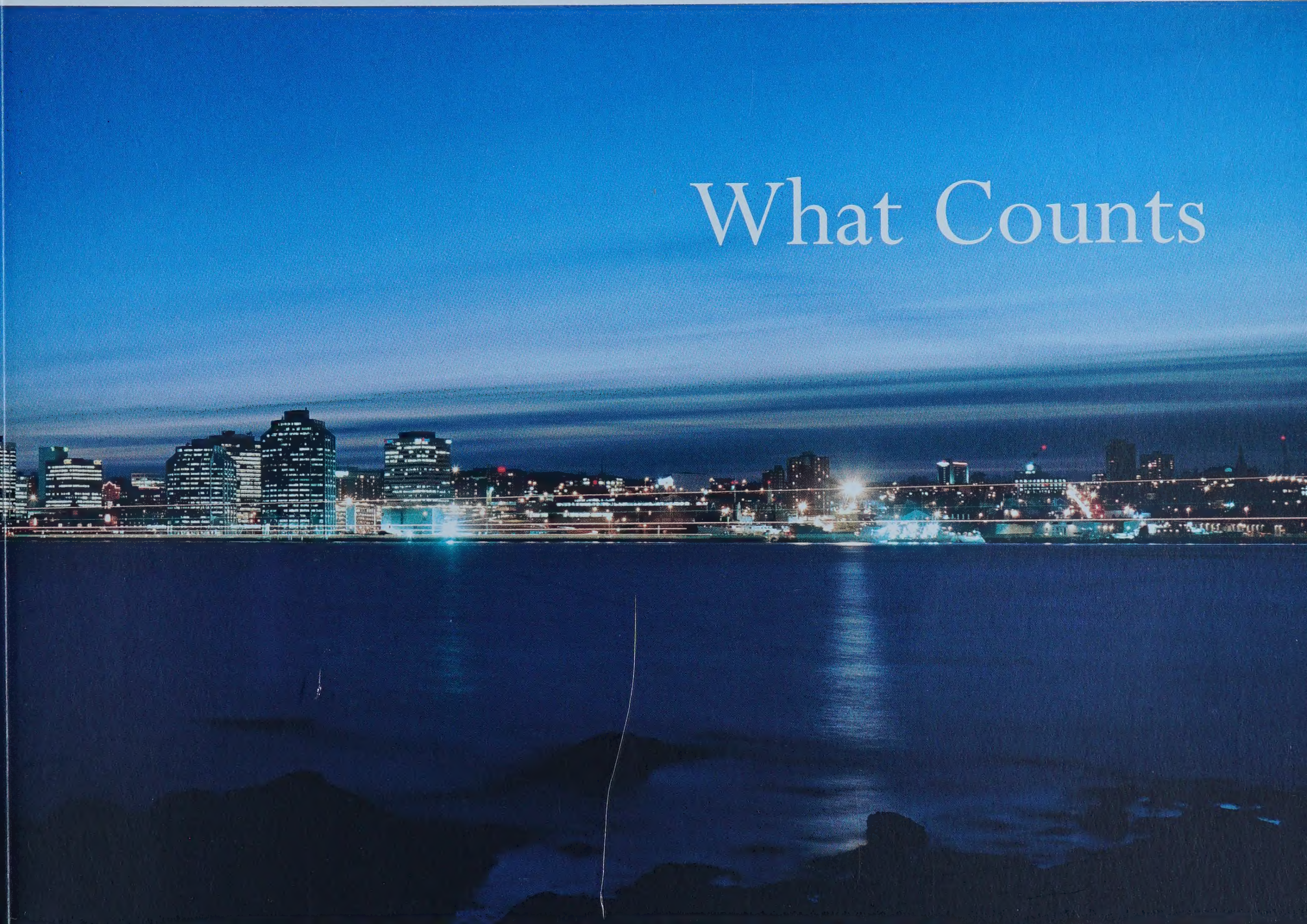


What Counts

2002 ANNUAL REPORT

Emera

Emera Inc. (EMA-TSX) is a diversified energy and services company with 550,000 customers and $4.0 billion in assets.

The company has two wholly-owned regulated electric utility subsidiaries, Nova Scotia Power Inc. and Bangor Hydro-Electric Company. Nova Scotia Power supplies over 95% of the electric generation, transmission and distribution in Nova Scotia. Bangor Hydro provides electricity transmission and distribution service to 107,000 customers in eastern Maine. It is a member of the New England Power Pool, and is interconnected with the other New England utilities to the south and with New Brunswick Power to the north.

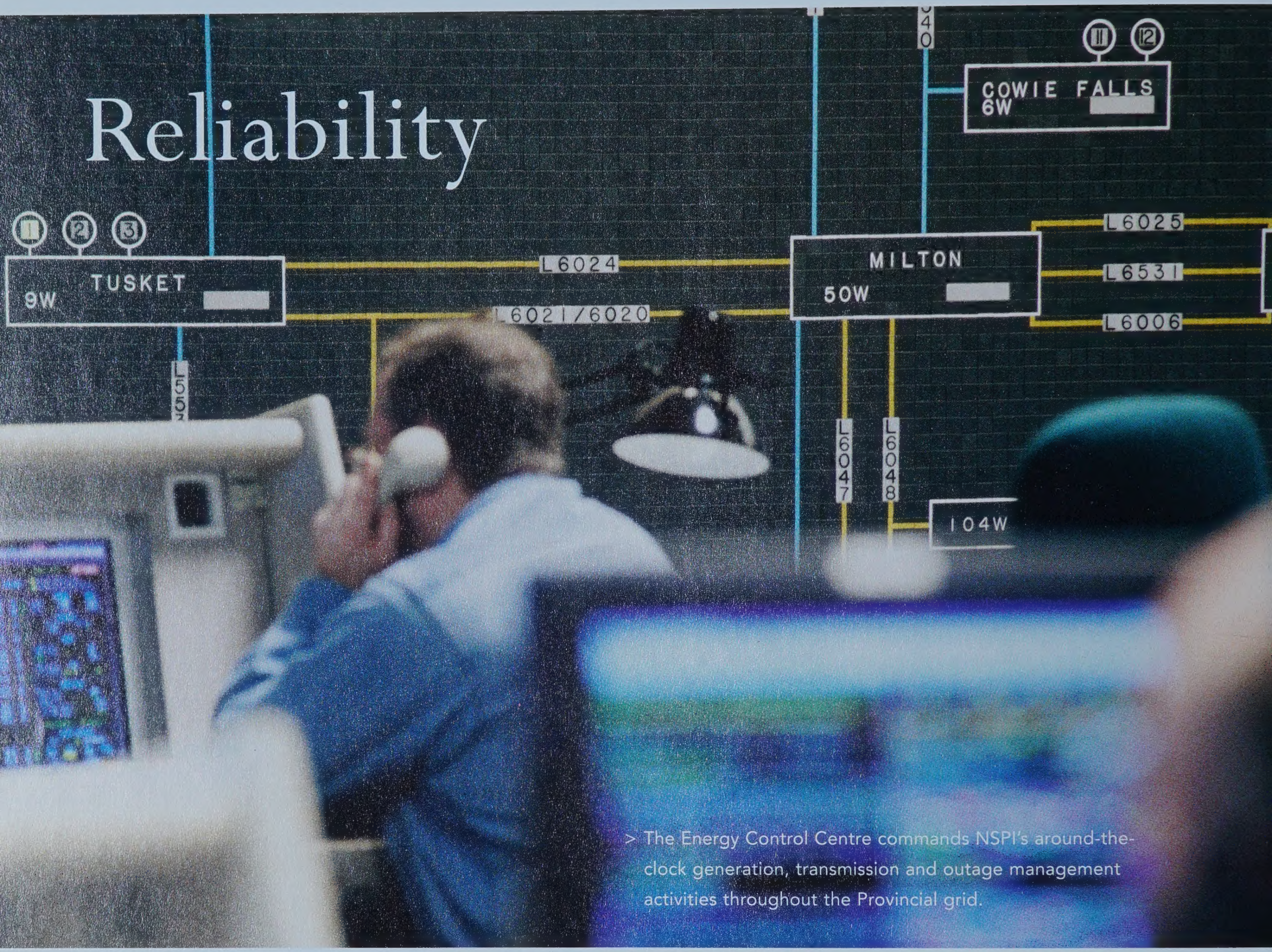
Emera Energy manages Emera's growing gas infrastructure investment portfolio, including its 12.5% interest in the Maritimes & Northeast Pipeline, which delivers Sable natural gas to markets in Maritime Canada and the northeastern United States; and an 8.4% interest in the Sable Offshore Energy Project offshore platforms and sub-sea field gathering lines. Emera Energy also incorporates Emera Energy Services, Emera Fuels, and Emera's business development activities.

What Counts

Over 550,000 customers count on Emera every day to provide the energy that fuels their lives. Our shareholders depend on us as a reliable investment. From a broader perspective, our employees and all communities in which we operate, look to us for leadership in developing an energy industry that will promote economic growth in our region for years to come. Our success comes from maintaining a focus on "what counts."

>

Reliability



> The Energy Control Centre commands NSPI's around-the-clock generation, transmission and outage management activities throughout the Provincial grid.

Above all else, the success of an energy company depends on its reliability. Reliability of supply counts, whether it's the delivery of natural gas, oil or electricity. Our customers' satisfaction hinges on our ability to provide a secure, dependable source of energy – and to respond quickly and effectively when things occur beyond our control.

At Nova Scotia Power, system improvements are reducing both the number and duration of power outages, and letting customers communicate with us promptly and easily. It's no surprise then that our system reliability and efficiency standings place us amongst the leaders in our industry.

For investors, reliability is just as important. Keeping our core franchises strong allows us to deliver solid earnings and cash flows that fund our dividends and growth investments.

Expertise

> NSPI's 350 megawatt Tufts Cove plant uses fuel-switching technology to burn either oil or natural gas.

Expertise puts knowledge into action. Emera's electric utilities have focused on being experts for over 80 years. Today, Nova Scotia Power is a top quartile performer in plant availability, operating and distribution costs per customer, and customer satisfaction. Flexibility and a track record of non-traditional solutions have produced lower customer rates and improved safety and reliability at Bangor Hydro.

As Emera expands its business, we're growing our skills. We're incorporating new technologies with alternative fuel sources like petroleum coke, natural gas and wind. To promote innovation, we're training our people and hiring new expertise – much of it home grown and return-to-home talent. Our education continues as we push the boundaries of our knowledge and partner with the industry giants in natural gas development.

Determination

> Tier II expansion of the Sable natural gas reserves proceeded in 2002, with development of Alma, the first of three new gas fields.

Charting the right course for a company demands determination. In business, like navigation, knowing your destination is key. Emera's evolution from a provincial electricity company into a Northeastern energy business often means recalibrating the course along the way. To date, we've gained ground in the natural gas sector, expanded our electricity operations and pursued strategic opportunities across the energy value chain.

En route, our business decisions have required discipline and adaptability. Our recent rate agreement at Bangor Hydro called for a restructure of operations and finances. The result was rate stability for customers, improved financial performance for the utility, and a renewed relationship with our Maine regulator. As Emera's journey continues, we will meet challenges head on and capitalize on the opportunities they present.

Responsibility

> Emera supports Halifax's Discovery Centre, which provides hands-on science exhibits and programs to over 50,000 visitors annually.

Leadership and responsibility go hand in hand. Running a responsible business means much more than delivering energy. It means being engaged as a leader for industry and our communities. We reach out to local and national governments on a wide range of public policy issues of importance to our customers and region. Recently, these issues included the Nova Scotia Energy Policy and a new approach to electricity rate making in Maine.

We are also active with the Canadian Electrical Association, developing progressive, industry-wide policies and programs on important issues such as climate change.

And from Nova Scotia to Maine, Emera, its employees and fundraising partners made a big difference in 2002. Our employee gift-matching program, corporate donations and fundraising activities directed almost $800,000 to community-based charities and organizations.

Integrity

> With 107,000 customers, Bangor Hydro focuses on delivering the power that creates economic value for business, industry and the community.

Integrity is doing what you say, and saying what you mean. Our customers and investors are coming to know the character behind the Emera name. It's alive in the way we approach our work each day – whether it's generating and distributing electricity, delivering oil to homes and businesses, or taking Emera in new directions within the energy industry.

We never lose sight of the fact that the work we do is essential, and the services and products we deliver make lives easier, better, warmer and safer. For everyone whose lives we touch – as customers, partners, communities and investors – we are committed to keeping focused on "what counts."

David McD. Mann
President and Chief Executive Officer

President's Letter to Shareholders

In my letter last year, I noted that 2002 would be challenging for Emera and indeed it was. Our company faced up to those challenges. We worked through some serious issues, made some tough decisions, and we learned a few things – about our company, ourselves and about "what counts."

In 2002, Emera's subsidiary Nova Scotia Power faced a "perfect storm" on fuel costs that was severe enough to compel the company to apply to its regulator for its first general rate increase in over six years. Much had changed in our company and our industry. Our main, indigenous supply of fuel had disappeared. Electricity deregulation had been implemented in many jurisdictions in North America – sometimes successfully, but often not. Energy markets, particularly in the United States, experienced unprecedented volatility, a circumstance that will continue in 2003. Gas was introduced in Nova Scotia, and Nova Scotia Power had become part of the broader energy business that is Emera.

These and other factors made 2002's rate discussions quite complex. As it turned out, it was almost year-end before any rate relief was in place. To limit the financial impact while the rate hearing proceeded, Nova Scotia Power drew upon its considerable expertise in operations. NSPI expanded the use of petroleum coke in the fuel mix, deferred capital spending, reduced staff, and cut other costs.

I believe NSPI performed well under those difficult circumstances, earning $86 million in 2002. Excluding the impact of a $13 million non-recurring item, Nova Scotia Power's net earnings were $99 million, just 6% lower than in 2001, which was a record year for the company. Operating cash flows were actually $15 million stronger year over year.

Looking to 2003, the rate decision will mean approximately $23 million in new revenues for NSPI. We will be working hard to strengthen our relationship with our Nova Scotia regulator. Drawing in part on what we have learned recently in Maine, we are leading efforts to reduce the adversarial nature of the rate making process in Nova Scotia. NSPI is now working with key stakeholders to look for opportunities to share information, identify issues and resolve differences before hearings even begin. And we are working to improve communication with the Nova Scotia Utility and Review Board, to ensure our regulator is informed about developments in our business, and the risks and challenges inherent in what is today a very complicated energy industry.

Bangor Hydro (BHE) also tackled tough issues in 2002. The past few years had been demanding for the company, as it worked through industry restructuring, and financial and regulatory challenges. Emera saw opportunity in these circumstances, and Bangor Hydro was up to the test. Together we were determined to put the company on more solid footing.

Sometimes the first step to successfully implementing change is to stop what you are currently doing. Early in 2002, BHE withdrew from what was clearly becoming an unproductive and unpleasant rate application and initiated a new process. Together with customers and other stakeholders, BHE drafted a performance-based rate plan that all could support, and brought it forward to the Maine regulator for approval. In exchange for upside earnings potential, the company took some incremental risk, committing to an average 2.5% rate decrease in each of the next five years. We believed it was appropriate, and are confident that we can do the right thing for customers and at the same time improve financial performance.

Living up to the commitment meant we had to reduce operating costs significantly. BHE implemented a 25% reduction in its workforce during the year. That was tough on the people affected and the community overall, and demanded a lot of Bangor Hydro's current employees. But their hard work, smart thinking and perseverance is showing results. Bangor Hydro's financial picture improved significantly in 2002, with net earnings of $19 million, and a return on equity of 9.5%. I believe we have turned the corner in our effort to build a stronger utility that is good for customers, communities, and shareholders alike. We look forward to continued improvement in 2003.

Emera's electric utilities are the core of its business, providing substantial earnings and cash flows. We are building on the strength of our utilities with complementary investments in the energy sector that bring opportunity for growth. We continue to believe the development of Nova Scotia's offshore natural gas reserves presents an historic opportunity for our region, and our company. Natural gas development brings prospects for infrastructure investment consistent with our operational skills and our tolerance for risk. It is also fostering development of a northeast energy market, where electricity and natural gas will move back and forth across borders, creating both new opportunities and new challenges for Emera.

“We intend to return Emera to an acceptable level of profitability in 2003, and provide the strong corporate performance that will continue to support a solid dividend to our investors.”

With our investments in the Maritimes & Northeast Pipeline, and the Sable Offshore Energy Project we have already established our foothold. We have cast a wide net to gain a view of the market overall and the available opportunities. This is not a quick or an inexpensive process, and for a company our size, success is as much about the deals we reject as the ones we choose to complete.

Our business development efforts in 2002 provided valuable knowledge that helps clarify our focus going forward. That sharper focus, combined with a pace of offshore development that reflects the complex offshore geology and the enormous engineering challenges, prompted us to look hard at our business development activity. We concluded that it was appropriate to streamline our operation, reducing costs while maintaining the capability to identify, assess and pursue quality opportunities for investment.

Our shareholders rely on us for the stability of our dividend. We intend to return Emera to an acceptable level of profitability in 2003, and provide the strong corporate performance that will continue to support a solid dividend to our investors.

Our Board of Directors continues to provide strategic guidance and valued management oversight as we work to meet the challenges and seize the opportunities that are before us. On behalf of all shareholders we thank them for their continuing dedication to our business success. We are also grateful to our customers, our business partners, and the communities in which we operate for their continued support.

In closing, I especially want to thank all of the employees of Emera for their contributions in the past year. Our ability to meet challenges and achieve success is the result of much hard work and personal commitment on the part of individuals strengthened by exemplary teamwork across the entire organization.

David McD. Mann
President and Chief Executive Officer

Our Management Team

L > R Ian Thompson, *VP External Relations*; Jim Connors, *VP Regulatory Affairs*; Rick Smith, *Corporate Secretary and General Counsel*; Liz MacDonald, *VP Human Resources*; Ron Smith, *Senior VP and Chief Financial Officer*; David McD. Mann, *President and Chief Executive Officer*; Wayne Rousch, *Senior VP Business Development*; Chris Huskilson, *Chief Operating Officer, Nova Scotia Power Inc.*

Derek Oland
Chairman of the Board

Chairman's Message

Good corporate governance benefits all of a corporation's stakeholders, including shareholders, customers, regulators and employees. Emera's Directors are committed to the highest standards of corporate governance in order to ensure those stakeholder interests are well served.

Emera's Board structure ensures it can function independently of management. The Chairman, Board Committee Members, and indeed all Directors, with the exception of the Chief Executive Officer, are unaffiliated with management.

Emera's Directors are highly skilled and well informed individuals with diverse backgrounds, who bring expertise in energy, business, finance, the law and capital markets to the Board table. New Directors are educated with regard to the specific affairs of Emera upon election to the Board.

The Board of Directors is actively involved in setting Emera's strategic direction, approving its business and financial plans, monitoring the company's performance against its goals and objectives, and ensuring appropriate systems are in place to manage corporate business risks. The Board also provides advice and counsel to the CEO, and works closely and constructively with Management on all matters affecting Emera.

Sustaining the confidence and trust of stakeholders is of prime importance to Emera's Board of Directors, and with the support of Management, we remain committed to fulfilling this responsibility.

Derek Oland
Chairman of the Board

Emera at a Glance

- Headquartered in Halifax, Nova Scotia, Emera Inc. (TSX: EMA) is a diversified energy and services company
- Emera has over 550,000 customers and $4 billion in assets.
- The company employs 2,557 people.
- Emera's strategy is to pursue complementary energy opportunities throughout northeastern North America.
- Visit Emera's website at **www.emera.com**

Nova Scotia Power

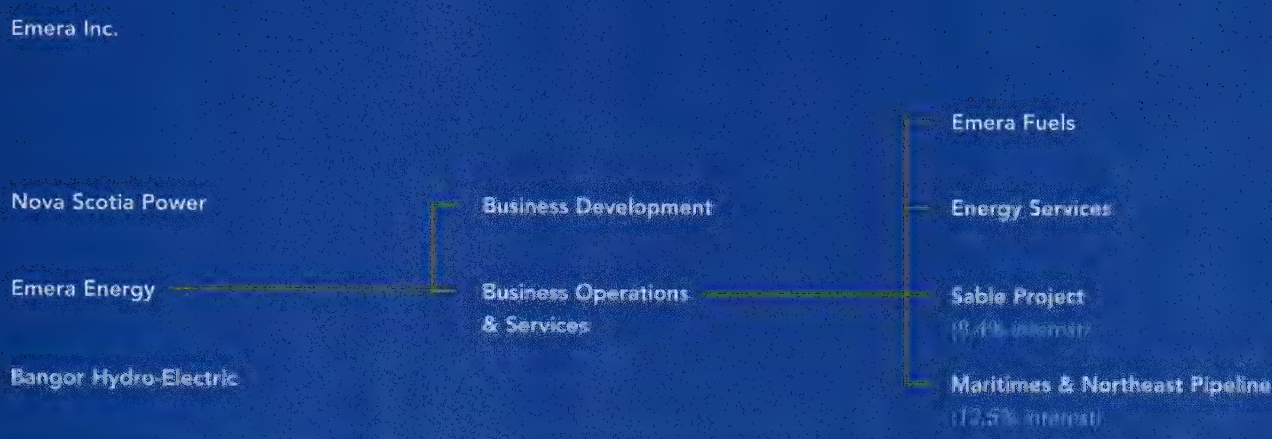
- Nova Scotia Power (NSPI) is a fully-integrated, regulated electric utility. It has produced and distributed electricity for almost 80 years.
- NSPI serves 450,000 residential, commercial and industrial customers in Nova Scotia.
- With its 5,000 km of transmission lines and 25,000 km of distribution lines, the company supplies 97% of the generation, 99% of the transmission and 95% of the distribution of electric power in Nova Scotia.
- NSPI has a total installed generating capacity of 2,184 megawatts of thermal and hydroelectric power.
- Visit Nova Scotia Power's website at **www.nspower.ca**

Bangor Hydro-Electric

- Bangor Hydro (BHE) is a regulated electricity transmission and distribution business, serving 107,000 customers in eastern Maine.
- Bangor Hydro is the second largest electric utility in Maine.
- The company operates 1,000 km of transmission lines and 7,000 km of distribution lines.
- BHE is a member of the New England Power Pool, and is interconnected with the other New England utilities to the south and with New Brunswick Power to the north.
- Visit Bangor Hydro's website at **www.bhe.com**

Emera Fuels

- Emera Fuels is a full service fuel oil company.
- Emera Fuels serves 22,000 residential, commercial and industrial customers in Nova Scotia, New Brunswick and Prince Edward Island.
- The company sells a full range of products including furnace oil, stove oil, diesel fuel, gasoline, Bunker C fuel and lubricants. It also offers heating and water heating equipment sales, leasing and servicing and maintenance plans.
- Visit Emera Fuels' website at **www.emerafuels.com**



Maritimes & Northeast Pipeline

Maritimes & Northeast Pipeline

- The Maritimes & Northeast Pipeline (M&NP) operates a 1,000 km underground natural gas transmission pipeline.
- M&NP moves Nova Scotia's offshore natural gas to markets in Maritime Canada, and the northeast U.S.
- The pipeline interconnects with the existing North American pipeline grid at Dracut, Massachusetts.
- The pipeline has a capacity of 600 million cubic feet of natural gas per day.
- Emera has a 12.5% ownership interest in M&NP.
- Emera's partners in M&NP are Duke Energy (75%) and Exxon Mobil (12.5%).
- Visit M&NP's website at **www.mnpp.com**

Sable Project

- The Sable Project develops, processes and transports natural gas from the Sable offshore fields located 200 km off Nova Scotia's coast.
- Emera has a 8.4% equity interest in the Sable Project offshore platforms and associated sub-sea gathering lines.
- 550 million cubic feet of natural gas and 20,000 barrels of natural gas liquids are produced and transported daily.
- Emera's partners in the Sable Project include Exxon Mobil Canada, Shell Canada, Imperial Oil Resources and Mosbacher Resources.
- Visit Sable Project's website at **www.soep.com**

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides a review of the results of operations of Emera Inc. and its primary subsidiaries and investments during 2002 relative to 2001, and its financial position at December 31, 2002. Certain factors that may impact future operations are also discussed. Such comments will be affected by, and may involve, known and unknown risks and uncertainties that may cause the actual results of the company to be materially different from those expressed or implied. Those risks and uncertainties include, but are not limited to, weather, commodity prices, interest rates, foreign exchange, regulatory requirements and general economic conditions. To enhance shareholders' understanding, certain multi-year historical financial and statistical information is presented. This discussion and analysis should be read in conjunction with the Emera Inc. audited consolidated financial statements and supporting notes. Throughout this discussion, "Emera Inc." and "Emera" refer to Emera Inc. and all of its consolidated subsidiaries and affiliates. All amounts are in Canadian dollars, unless otherwise noted.

FINANCIAL HIGHLIGHTS

	2002	2001	2000
Revenues (millions)	$ 1,226.9	$ 1,003.9	$ 896.5
Net earnings (millions)	$ 83.6	$ 114.2	$ 104.4
Earnings per common share	$ 0.85	$ 1.20	$ 1.20
Operating cash flow (millions)	$ 256.0	$ 236.9	$ 231.1
Operating cash flow per common share	$ 2.59	$ 2.48	$ 2.65
Dividends per common share	$ 0.86	$ 0.85	$ 0.84

INTRODUCTION AND STRATEGIC OVERVIEW

The core business of Emera is electricity. The company operates two regulated electric utilities in northeast North America, which together comprise over 90% of consolidated revenues:

- **Nova Scotia Power Inc. (NSPI)**, is a wholly-owned, **fully integrated, regulated electric utility**, with $2.9 billion of assets, serving 450,000 customers. NSPI is the primary electricity supplier in Nova Scotia, providing the vast majority of the generation, transmission and distribution of electricity in the province.
- **Bangor Hydro-Electric Company (BHE)** is a wholly-owned **regulated electricity transmission and distribution company** with $750 million of assets serving 107,000 customers in eastern Maine.

The success of Emera's electric utilities is integral to the creation of shareholder value, providing substantial earnings and cash flow. Emera's utilities enjoy essentially monopoly status within regulated environments, which can generally be expected to result in relatively stable earnings streams. Sustaining that privileged position depends on continuing to satisfy customers with the right combination of price and service quality. Accordingly, cost management, including generating capacity management/asset utilization, reliability, quality customer service and management of regulatory relationships are key success factors for Emera's electricity business.

Emera strives for continuous improvement in its financial and operating results. Its 2003 objective is to return earnings per share (EPS) to 2001 levels. From that point, the company has established an annual EPS growth target of 5%. As previously noted, Emera's electricity businesses are regulated, which limits upside earnings potential, all other things being equal. In addition, Nova Scotia and Maine are mature electricity markets, with annual demand growth in the range of 2-3%. Accordingly, Emera must look beyond its core electricity business to provide the incremental growth it seeks.

Emera's strategy for growth is to capitalize on the opportunity arising from the development of Nova Scotia's offshore natural gas reserves, within the integrated northeast North American energy market that is evolving as these reserves come on stream. **Emera Energy** is building a portfolio of energy infrastructure investments that support this new energy market, and which currently includes interests in the Maritimes & Northeast Pipeline and the Sable Offshore Energy Project. Emera Energy also includes Emera Fuels, a fuel oil distribution business operating in the Maritimes, and business development activities. At December 31, 2002 Emera Energy had assets of $260 million.

Emera Energy's success depends on:

- identifying and executing opportunities for profitable growth in energy infrastructure in both the medium and longer term,
- building strong partnerships with industry leaders, and;
- capitalizing on synergies among businesses in Emera's expanding energy value chain, which currently includes electricity generation and transmission, offshore infrastructure and gas pipelines.

Structure of MD&A

NSPI, BHE and Emera Energy assume responsibility for their operating results measured as earnings before interest and income taxes. They are supported by Emera Corporate. This Management's Discussion and Analysis begins with an overview of consolidated results; then presents information by operating unit, including an overview of each business, a discussion of its 2002 operating results, an outlook for 2003, and details of debt management, which is centrally controlled but attached to operating entities. Interest, income taxes, non-controlling interest, liquidity and capital resources, significant changes in consolidated balance sheets, and the discussion of business risks and enterprise risk management are presented on a consolidated basis.

EMERA CONSOLIDATED

REVIEW OF 2002

Consolidated revenues increased by 22% to $1,226.9 million in 2002, compared to $1,003.9 million in 2001. The increase was substantially due to the acquisition of Bangor Hydro-Electric Company late in 2001. Nova Scotia Power's revenues increased $37.9 million, or 4.5%, reflecting normal growth patterns, and the modest impact of a 3% electricity price increase late in the year.

Consolidated net earnings applicable to common shareholders decreased $30.6 million, from $114.2 million in 2001 to $83.6 million in 2002. Bangor Hydro added $13.4 million to net earnings year over year. This was more than offset by higher fuel costs in NSPI, significant increases in business development activity and expenditures in Emera Energy, and higher post-employment benefits expense.

Earnings per share were $0.85 in 2002, compared to $1.20 in 2001, reflecting lower earnings and the dilutive impact of a common share issue in December 2002.

Consolidated operating cash flow increased $19.1 million, to $256.0 million, in 2002, from $236.9 million in 2001. The inclusion of Bangor Hydro for the entire year added $27.7 million of operating cash flow, and NSPI's operating cash flow increased $14.7 million. This was partially offset by increased cash expenses in Emera Corporate, including $12.4 million of interest expense.

Significant One-Time Items

In October 2002, as part of its decision on Nova Scotia Power's 2002 Rate Application, the Nova Scotia Utility and Review Board disallowed recovery from ratepayers of a $13.4 million contract termination fee paid to the Cape Breton Development Corporation in 2001 to terminate its coal supply contract, which otherwise extended to 2010. As a result, NSPI expensed this fee in Q4, 2002.

Also during Q4, 2002, the company reviewed its investment in a coal bed methane project, and determined that the project was not economically viable in the foreseeable future. Accordingly, the $5.5 million investment was expensed.

OPERATING UNIT RESULTS

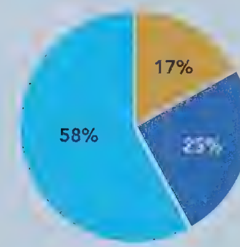
Summary of Operating Unit Results

Earnings before interest and income taxes millions of $	2002	2001	2000
Nova Scotia Power	$ 241.0	$ 263.1	$ 259.3
Bangor Hydro-Electric	48.1	14.3	–
Emera Energy	(20.1)	10.7	2.6
Emera Corporate	(5.9)	(4.4)	0.3
Earnings before interest and income taxes	263.1	283.7	262.2
Interest	145.4	122.7	135.4
Amortization of defeasance costs	19.4	19.8	
Earnings before income taxes	98.3	141.2	126.8
Income taxes	4.1	14.8	12.5
Non-controlling interest	10.6	12.2	9.9
Consolidated net earnings	$ 83.6	$ 114.2	$ 104.4

NOVA SCOTIA POWER INC.

OVERVIEW

NSPI's 2,184 MW of Generating Capacity



NSPI is the primary electricity supplier in Nova Scotia, providing 97% of the generation, 99% of the transmission and 95% of the distribution of electricity in the province. The company owns 2,184 megawatts (MW) of generating capacity. 58% is coal-fired; oil and natural gas fired facilities together comprise another 25% of capacity; and hydro production provides the remainder. As part of its efforts to offer "green power" alternatives to customers, NSPI added 1.2 MW of wind-powered generation in 2002, and has selected an independent power producer to pursue an agreement for the supply of 100 GWh per year of wind power. NSPI also owns approximately 5,200 kilometers of transmission facilities, and 24,600 kilometers of distribution facilities. The company has a workforce of approximately 1,900 people.

NSPI is a public utility as defined in the Public Utilities Act (Nova Scotia) and is subject to regulation under the Act by the Utility and Review Board (UARB). The Act gives the UARB supervisory powers over NSPI's operations and expenditures. Electricity rates for NSPI's customers are also subject to UARB approval. The company is not subjected to an annual rate review process, but rather participates in hearings from time to time at the company's or the regulator's request.

In October 2002, the UARB granted NSPI an average 3% increase in electricity rates, effective November 1, the first general electricity price increase in Nova Scotia since 1996. NSPI's allowed return on common equity (ROE) range was set at 9.9% to 10.4%. For ratemaking purposes, the UARB set common equity at 35% of NSPI's total capitalization. On an annual basis, the rate increase represents approximately $23 million of additional revenue.

NSPI had applied for an average 8.9% increase in electricity rates, primarily based on an expected increase in coal costs in 2002; a requested ROE range of 11%-12%; and a 40% common equity component for ratemaking purposes. As the rate hearing proceeded through the year, coal costs fell back to more normal levels, suggesting that the sharp increase in coal costs the company was experiencing was a short-term phenomenon. This accounts for a substantial portion of the difference between the requested increase, and the amount approved by the UARB.

REVIEW OF 2002

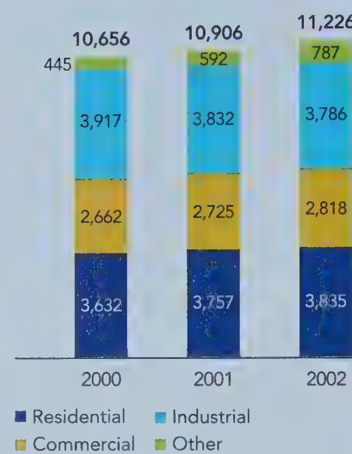
NSPI Earnings before interest and income taxes millions of $	2002	2001	2000
Electric revenues	$ 869.1	$ 832.7	$ 813.3
Fuel for generation and power purchased	335.6	301.0	273.9
OM&G	176.4	156.8	156.7
Provincial grants and taxes	22.0	20.2	17.7
Depreciation	103.9	99.6	97.1
Amortization	1.0	3.0	19.0
Other	(10.8)	(11.0)	(10.4)
Earnings before interest and income taxes	$ 241.0	$ 263.1	$ 259.3
Contribution to consolidated net earnings	$ 86.1	$ 105.1	$ 103.7

In 2002, NSPI's contribution to earnings before interest and income taxes was $241.0 million, compared to $263.1 million in 2001. Its contribution to consolidated net earnings applicable to common shares was $86.1 million compared to $105.1 million in 2001. The positive impact of a $36.4 million increase in electric revenues was offset by higher fuel costs, including the one-time write-off of $13.4 million paid to the Cape Breton Development Corporation in 2001 to terminate a coal contract. In addition, post-employment benefits (pension) expense increased $12.7 million year over year. This was partially due to more conservative actuarial assumptions, but more significant is the fact that in 2001 pension expense was reduced by $8.1 million, due to the reversal of a valuation adjustment booked in 2000.

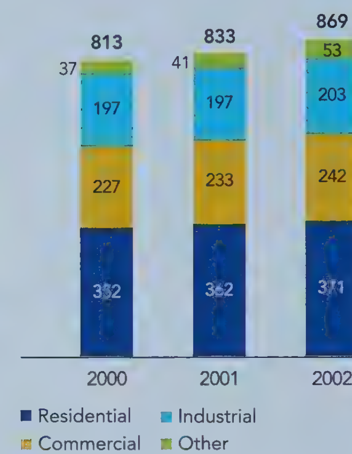
REVENUE

Electric sales *volume* is primarily driven by general economic conditions, population and weather. Electricity *pricing* in Nova Scotia is regulated, and therefore stays stable for extended periods of time, only changing as new regulatory decisions are implemented. The exceptions are Annually Adjusted Rates, subscribed to by larger industrial customers, which apply to approximately 15% of NSPI sales volume; and export sales, which typically comprise approximately 5% of NSPI sales volume, and are priced at market. Residential and commercial electricity sales are seasonal in Nova Scotia, with Q1 and Q4 the strongest periods, reflecting cold weather, and short days at those times of year.

Electric Sales Volume
(GWh)



Electric Sales Revenue
(millions of $)



Residential revenue increased 2.4% to $370.7 million in 2002 from $362.1 million in 2001. The increase is due mainly to higher customer demand, in line with historical growth patterns. A small portion of the increase is due to the general rate increase, which was effective November 1, resulting in revenue per MWh increasing from $96.38 to $96.66. NSPI's residential load generally comprises appliance usage and lighting (60%); space heating (20%); and water heating (20%).

Commercial revenue increased 4.0%, to $241.9 million in 2002 from $232.7 million in 2001, driven primarily by volume increases, consistent with general economic conditions. Again, the general rate increase had a small impact, increasing revenue per MWh from $85.39 to $85.84. NSPI's commercial customer base includes everything from small retail operations, to large office and commercial complexes, and the province's universities and hospitals.

Industrial demand dipped in the first half of 2002, reflecting the North American economic slowdown, but recovered in the second half, to net a 1.2% decrease overall. Despite slightly lower sales volumes, industrial revenue increased 3.0%, reflecting annual industrial rate adjustments made under approved formulae; changes in industrial sales mix; and the impact of the general rate increase implemented in November. Overall industrial revenue per MWh increased to $53.70 from $51.49.

Other electric revenue consists of export sales, sales to municipal electric utilities, and revenues from street lighting. Other electric revenue increased from $40.6 million in 2001 to $53.3 million in 2002, due primarily to higher export revenues. Export volumes increased 57%, from 324 MW to 510 MW; and export revenues increased 84%, to $24.1 million in 2002 from $13.1 million in 2001. Average pricing on NSPI's export sales increased approximately 15%, from $41 per MWh to $47 per MWh.

Outlook

Electric revenues are expected to increase 4%-5% in 2003, reflecting normal volume growth and the 3% price increase implemented in late 2002.

FUEL FOR GENERATION AND POWER PURCHASED

Capacity

To ensure reliability of service, NSPI maintains a generating capacity greater than firm peak demand. Total generating capacity is comprised of 2,184 MW of company owned generation, and 25 MW contracted with independent power producers. This capacity maintains a planned generation reserve margin of at least 20%, which can be expanded further with an interruptible load of 16%.

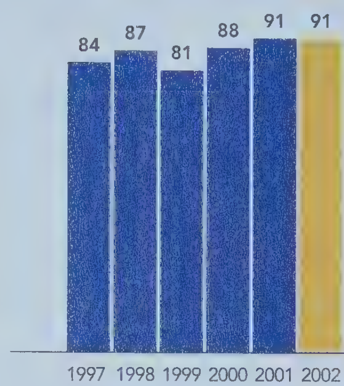
Management of capacity/capacity utilization is a critical element of operating efficiency. The provision of sufficient generating capacity to meet peak demand inevitably results in excess capacity in non-peak periods. NSPI's daily load is highest in the early evening; its seasonal load is highest through the winter months. Summer cooling load is not a significant factor. Maximizing capacity utilization has a positive impact on earnings, and helps defer significant investment in additional generation capacity.
Maximizing capacity utilization primarily depends on three factors:

- *Moving demand from peak to non-peak periods* - NSPI encourages customers to move some electricity demand from peak to non-peak

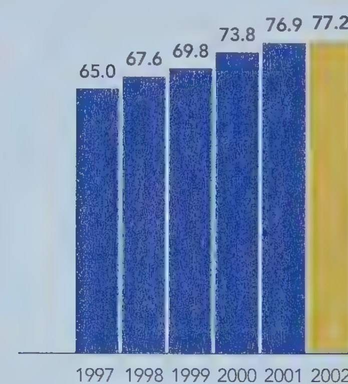
periods by offering customers various pricing alternatives, such as Real Time Pricing and time of use pricing. Over the past two years, NSPI has managed to move 50MW from peak to non-peak periods.

- *Increasing export sales* – A focus on increasing export sales when margins are satisfactory has resulted in NSPI increasing export volumes by 235% over the past three years.
- *Ensuring generating plants are consistently available to service demand* – NSPI conducts ongoing planned maintenance programs, and has managed to improve NSPI's average availability steadily over the past several years. In addition, an indicator of the effectiveness of NSPI's plant maintenance is the company's unplanned outage rate, which is less than 2%.

NSPI Thermal Capacity Availability (%)

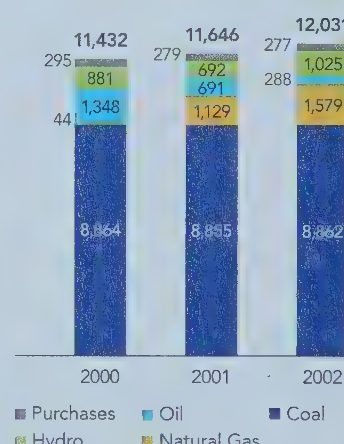


NSPI Generating Capacity Utilization (%)



NSPI's generating capacity utilization has grown 19% since 1997, from 65.0% to 77.2% in 2002.

Production Volume (GWh)



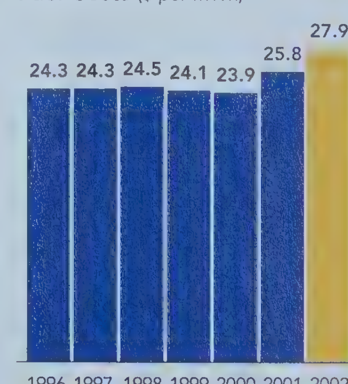
Fuel Expense

Coal is NSPI's dominant fuel source, and has the lowest per unit fuel cost, after hydro and wind production, which have no fuel cost component. Oil and natural gas are next, depending on the relative pricing. Purchased power is generally the most expensive option. The vast majority of NSPI's fuel supply comes from international suppliers, and is subject to commodity price and foreign exchange risk. The company manages exposure to commodity price risk utilizing a combination of physical fixed-price fuel contracts and financial instruments providing fixed or maximum prices. Foreign exchange risk is managed through forward and option contracts. Further details on the company's fuel cost risk management strategies are included in the Business Risks and Enterprise Risk Management section.

In 2002, fuel for generation and power purchased increased 11.5% over 2001, from \$301.0 million to \$335.6 million. \$13.4 million of the increase reflects the one-time write-off in Q4 of a contract termination fee paid to the Cape Breton Development Corporation in 2001, which had previously been capitalized. Higher sales volumes added \$15.0 million to fuel costs, and increased use of natural gas added \$20.3 million. These increases were partially offset by increased hydro production, which reduced fuel costs by \$11.7 million.

The net effect of all of these factors was an increase in the average fuel cost per MWh of power produced, to \$27.89 in 2002 from \$25.84 in 2001.

NSPI Average Unit Fuel Costs (\$ per MWh)



Fuel Outlook

NSPI's fuel expense is expected to decline in 2003, compared to 2002. This is due primarily to the inclusion of the \$13.4 million one-time charge in 2002.

OPERATING, MAINTENANCE AND GENERAL EXPENSES

NSPI's operating, maintenance and general expenditures (OM&G) were \$176.4 million in 2002, compared to \$156.8 in 2001. The primary reason for the increase was a \$12.7 million rise in post-employment benefits (pension) expense. In 2001, pension expense was reduced by \$8.1 million because accounting directives required a "valuation adjustment" as the pension asset on the balance sheet exceeded a cap, which was

partially determined by the amount of pension surplus. No such adjustment was required in 2002. Also, weaker market performance in 2002 contributed to the increased pension expense.

Also contributing to the increased operating costs was the write-off in the first quarter of 2002 of $2.6 million of business development costs that had been previously deferred.

In 2002, NSPI changed its pension accounting policy to use *market-related* values, instead of *market* values to calculate the expected return on its plan assets. As a result, changes in the actual fair value of plan assets will be recognized in a rational and systematic manner over a five-year period. The effect will be to reduce the volatility in the expense caused by the annual fluctuations of returns on plan assets.

Outlook

OM&G is expected to approximate $175-$180 million in 2003.

GRANTS IN LIEU OF PROPERTY TAXES

NSPI pays annual grants to municipalities in Nova Scotia, in lieu of all municipal taxation other than deed transfer tax. Since 1998, it had also been required to make a grant to the Province of Nova Scotia, commencing with $2.0 million in the first year, and increasing by $2.0 million each year, to an annual maximum of $10.0 million. In 2002, the grant to the Province reached $10.0 million, up from $8.0 million in 2001. Total grants to municipalities and the province increased to $15.2 million compared to $13.2 million in the prior year.

Outlook

In 2002, the Government of Nova Scotia changed the grant structure. The existing grants to municipalities and the Province referred to above were combined into one annual tax; and a new $10.7 million tax was introduced, to take effect in 2003. Accordingly, grants in lieu of property taxes are expected to increase by approximately $11 million in 2003.

DEPRECIATION

NSPI depreciation expense increased in 2002 to $103.9 million from $99.6 million in 2001 as a result of the higher cost of in-service assets throughout 2002.

Outlook

Depreciation expense is expected to approximate $110 million in 2003. NSPI is in the process of conducting a depreciation study, which is expected to result in some increase in annual depreciation expense beginning in 2004. The revised depreciation amounts will be incorporated into NSPI's next rate application.

AMORTIZATION

In 2000, NSPI concluded that its Glace Bay generating station, which was taken out of service in 1995, should be permanently shut down and, accordingly, written off.

In circumstances where the carrying value of an asset to be written off is significant, NSPI's regulated accounting policy provides for amortization of the net book value of the asset on a straight-line basis over five years. Instead of straight-line amortization, the UARB has allowed NSPI flexibility in determining the annual write-off of the Glace Bay station in order to support rate stability. For 2002 NSPI recorded amortization of $1.0 million (2001 – $3.0 million); $14 million has been amortized to date.

Outlook

The amount remaining to be written off over the next two years is $27.0 million, including financing costs deferred to December 31, 2002. To the extent that it is unable to absorb that amount in 2003 and 2004 and earn within its allowed Return on Equity range, the Company will likely request that the UARB extend the write-off period. If an extension is not granted, any unamortized balance will be expensed in 2004.

CAPITAL EXPENDITURES

In the wake of the shutdown of the Cape Breton Development Corporation in December 2001, Emera purchased certain pier and railway assets of CBDC out of necessity to enable the delivery of import coal to NSPI's plant sites. The total cost was $32.4 million.

Certain of the assets were transferred to NSPI in 2002. Third party operators have managed the assets on NSPI's behalf since acquisition. In December 2002, NSPI sold substantially all of these assets to the operators for their book value of $26.2 million. As part of the arrangement, NSPI has agreed to a ten-year contract for coal shipments to fuel the Lingan and Point Aconi generating plants.

Outlook

NSPI's capital expenditure budget is approximately $120 million in 2003, and includes the installation of a 47MW LM6000 natural gas fired turbine in the Tufts Cove facility.

COMMON EQUITY

On December 3, 2002 Emera Inc. injected $75.0 million of common equity into NSPI, using proceeds from its December 2002 common share issue. NSPI has utilized these funds to reduce short-term debt.

DEBT MANAGEMENT

The weighted-average coupon rate on NSPI's long-term debt outstanding at December 31, 2002, was 7.56% (2001 – 7.59%). 57% of the debt matures over the next ten years; 39% matures between 2015 and 2036; and $50.0 million, or 4% matures in 2097. The quoted market-weighted-average interest rate for the same or similar issues of the same remaining maturities was 5.64% as of December 31, 2002 (2001 – 5.32%).

In 2002 NSPI had $120.0 million of long-term debt mature. $50.0 million 7% bonds matured in January 2002, and $70.0 million 8.5% bonds matured in August 2002. Both maturities were substantially refinanced with short-term debt.

NSPI has established the following credit facilities:

millions of $	Maturity	Maximum amount
Long-term		
Shelf Prospectus	2004	$ 300.0
Short-term		
Commercial paper, with 100% backup line of credit	1 Year Revolving	$ 350.0
Operating credit facility	1 Year Revolving	$ 100.0

NSPI Credit Ratings	DBRS		S&P	
	2002	2001	2002	2001
Long Term Corporate	A (low)	A (low)	BBB+	BBB+
Senior Unsecured Debt	A (low)	A (low)	BBB+	BBB+
Preferred Stock	Pfd-2 (low)	Pfd-2 (low)	P-2 (Low)	P-2 (Low)
Commercial Paper	R-1 (low)	R-1 (low)	A-1 (Low)	A-1 (Low)

Based on the Company's available credit and credit ratings, and past experience in public financing since privatization, NSPI expects to have access to capital when needed.

Accounts Receivable Securitization

In February 2002 NSPI renewed an agreement with a Canadian chartered bank whereby it can sell accounts receivable to the bank on a revolving basis. As of December 31, 2002, the company had sold $75.0 million of net accounts receivable (2001 – $71.0 million). The net proceeds from the sale were used to repay a portion of the company's debt, thereby reducing net interest costs. The agreement is in place until 2004.

OUTLOOK

Rate Application

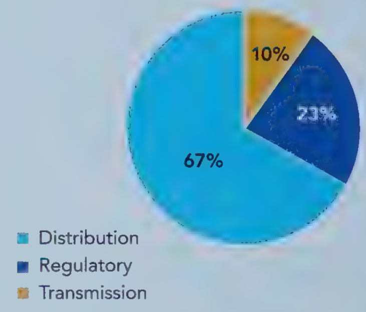
NSPI expects to file a rate application requesting an increase in revenue requirement for 2004. The company expects a substantial increase in corporate taxes in 2003. Depreciation expense is also expected to increase as a result of the depreciation study currently underway. In addition, the company may not be able to absorb the write-off of the Glace Bay Generating Station by 2004 and maintain its allowed return, although this item alone could potentially be dealt with through a regulatory order allowing an extension of the write-off term. It is unlikely that sales volume increases will be sufficient to absorb these higher costs, prompting a rate application.

In advance of a rate application requesting an increased revenue requirement, NSPI is obliged to initiate a generic rate design proceeding dealing with rate design issues. The company expects this filing to be made in Q1, 2003. With the exception of any modifications in the design of Annually Adjusted Rates any other impacts of such a proceeding will not be implemented until the company's next general rate case.

BANGOR HYDRO-ELECTRIC COMPANY

OVERVIEW

Composition of BHE's Asset Base



In October 2001 Emera acquired Bangor Hydro-Electric Company (BHE) for cash consideration of $316.6 million. Bangor Hydro is the second largest electric utility in Maine and greatly enhances Emera's presence in the Northeast energy market.

Since the restructuring of the electricity sector in Maine in 2000, BHE's core business has been the transmission and distribution of electricity (T&D). BHE owns and operates approximately 900 kilometers of transmission facilities, and 7,400 kilometers of distribution facilities. BHE has a workforce of approximately 300 people.

In addition to its T&D assets, BHE has substantial net "regulatory" assets, (stranded costs) which arose through the electricity industry restructuring, and as a result of rate and accounting orders issued by its regulator. BHE's net regulatory assets primarily include the unamortized portion of its loss on the sale of its investment in the Seabrook nuclear facility; and the costs associated with the buy- out/restructure of above-market power purchase contracts. Unlike T&D operational assets, which must be sustained with new investment, the regulatory asset pool diminishes over time, as elements are amortized through charges to earnings, and recovered through rates. These regulatory assets total approximately $172 million at December 31, 2002, or 23% of BHE's net asset base.

Approximately 50% of BHE's electric rate represents distribution service, 40% relates to stranded cost recoveries, and 10% to transmission service. The rates for each element are established in distinct regulatory proceedings. The transmission operations are regulated by the Federal Energy Regulatory Commission (FERC); the distribution operations, and stranded cost recoveries are regulated by the Maine Public Utilities Commission (MPUC).

In March 2002 the MPUC approved a three year stranded cost recovery Rate Case, resulting in an approximately 6.5% increase in BHE's total electric rates.

In June 2002, the Maine Public Utilities Commission approved BHE's Alternate Rate Plan, or ARP, which provides for an earnings band of 5% to 17% return on equity on distribution operations, with rates set at the midpoint of 11%. There is a sharing mechanism between the company and customers outside of the earnings band. The ARP also includes average annual reductions in distribution rates of approximately 2.5% for five years, beginning in 2003.

Transmission rates are set annually, based on the prior year's revenue requirement. The current allowed ROE for transmission operations is 11.25%.

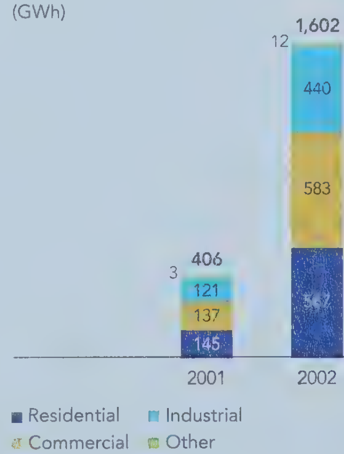
REVIEW OF 2002

BHE Earnings before interest and income taxes millions of $	For the year ended December 31, 2002	For the 82 day period from October 10 to December 31, 2001
Electric revenues	$ 178.6	$ 47.3
Standard offer service	19.5	28.0
Resale of purchased power	62.1	6.7
	$ 260.2	$ 82.0
Power purchased	115.1	40.6
OM&G	63.4	17.7
Depreciation	16.5	3.5
Regulatory amortization	22.0	6.3
Other	(4.9)	(0.4)
Earnings before interest and income taxes	$ 48.1	$ 14.3
Contribution to consolidated net earnings	$ 18.8	$ 5.4

In 2002 Bangor Hydro contributed $48.1 million to Emera's earnings before interest and income taxes; and $18.8 million to consolidated net earnings applicable to common shareholders. In 2001, for the 82-day period from the date of acquisition until December 31, 2001, BHE contributed $14.3 million to Emera's earnings before interest and income taxes; and $5.4 million to consolidated net earnings applicable to common shareholders.

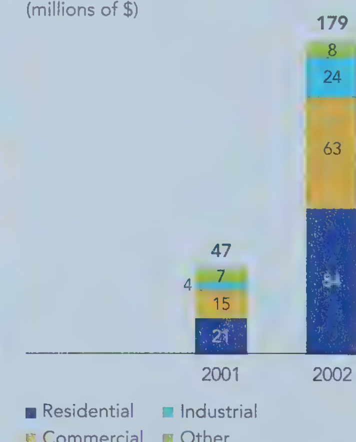
Electric Sales Volume

(GWh)



Electric Sales Revenue

(millions of $)



REVENUE

Electric sales *volume* is primarily driven by general economic conditions, population and weather. Electric sales *pricing* in Maine is regulated, and therefore changes in accordance with regulatory decisions. Residential and commercial electricity sales are seasonal in Maine, with Q1 and Q4 the strongest periods, reflecting cold weather, and short days at those times of year.

BHE's 2002 electric revenues reflect a 6.5% increase in stranded cost rates implemented in the first quarter.

Standard Offer Service

Up to March 1, 2002, BHE was required by its regulator to provide standard offer service to customers who chose not to exercise their option to purchase electricity from a competitive supplier. The regulator set rates for this standard offer that approximated the company's cost of providing the service, and included no margin. Any difference between allowed rates and actual costs was deferred, to be amortized in future periods.

Resale of Purchased Power

Approximately 70% of revenue from the resale of purchased power relates to BHE's former obligation to provide standard offer service. That obligation ceased in March 2002, but Bangor Hydro had entered into a fixed-price contract to purchase power until February 2004, and so is now selling that power to the new Standard Offer provider at a loss. In addition, BHE has several power contracts predating the Maine market restructuring. For all of these contracts, the excess of costs over revenues over the term of the contracts has been estimated and factored into the company's stranded cost recovery rates.

Outlook

Normal electric sale volume growth is expected to be offset by the reduction in distribution rates associated with BHE's Alternate Rate Plan, such that electric revenues in 2003 are expected to approximate 2002 levels.

PURCHASED POWER

Purchased power is comprised principally of the costs associated with the power contracts referred to above.

Outlook

2003 purchased power costs are expected to approximate 2002 levels, but decrease substantially in 2004 as the contract associated with BHE's previous standard offer supply expires in February of that year.

OPERATING, MAINTENANCE AND GENERAL EXPENSES

In the second quarter of 2002, BHE announced a staff restructuring that reduced its workforce by 112, or approximately 25%. This restructuring reduced annual payroll costs by approximately $3.0 million. The $12.1 million in costs associated with the restructuring was deferred and is being amortized over 10 years, commencing in June, 2002.

BHE implemented other cost savings measures in 2002, including a refocus of its vegetation management program. Related OM&G savings were offset by increased pension and other post retirement benefits expense, due to lower-than-expected market returns on plan assets.

Outlook

OM&G expense is expected to decrease slightly in 2003, reflecting the full-year impact of the workforce reduction undertaken in mid-2002.

REGULATORY AMORTIZATION

Regulatory amortization for 2002 totalled $22.0 million.

Outlook

In 2003, regulatory amortization is expected to decrease by approximately $12 million, principally due to the prescribed treatment of the amortization of the deferred gain on the sale of BHE's electric generating and other assets in the course of industry restructuring. Beyond 2003, regulatory amortization is expected to increase to approximately $30 million in 2005, then fall significantly. While changes in the amortization expense are significant from year to year, the stranded cost related revenues are also adjusted to factor in these annual expense amounts, such that the impact on net earnings is nil.

DEBT MANAGEMENT

The weighted-average coupon rate on Bangor Hydro's long-term debt outstanding at December 31, 2002, was 7.67% (2001 – 7.71%). 70% of the debt matures over the next ten years; the remaining issues mature in 2020 and 2022. The quoted market-weighted-average interest rate for the same or similar issues of the same remaining maturities was 6.09% as of December 31, 2002.

In the third quarter of 2002, $31.7 million of 7.38% First Mortgage Bonds matured, and were refinanced temporarily with short-term debt, and ultimately with the proceeds of $31.2 million of 6.09% Senior Unsecured Notes issued in December.

Bangor Hydro has established the following credit facilities:

millions of $	Maximum amount
Short-term	
Unsecured revolving facility	$ 94.6 (US$60)
Operating line of credit	$ 15.8 (US$10)

Bangor Hydro Credit Ratings	S&P	
	2002	2001
Long Term Corporate	BBB	BBB
Senior Secured Debt	BBB+	BBB+

Based on available credit and credit ratings, and past experience in public and private financing, Bangor Hydro expects to have access to capital when needed.

Preferred Shares

On December 31, 2002, BHE gave notice to holders of its 4% and 4¼% callable series of preferred stock that it was calling those shares. In January 2003, BHE offered to purchase all of the outstanding shares of its 7% Series Preferred Stock for $115.00 US$ cash. Total costs for these preferred share transactions are approximately $8.3 million, and are expected to be financed with short-term debt.

EMERA ENERGY

OVERVIEW

Emera created Emera Energy in 2001 to manage its gas infrastructure investment portfolio, and to seek out opportunities for additional investment along the energy value chain in northeast North America. Emera Energy's operations currently consist of:

- A 12.5% interest in the $2.1 billion, 1,000 kilometre **Maritimes & Northeast Pipeline (M&NP)** which transports natural gas from the Sable Offshore Project to markets in Maritime Canada and the northeastern United States. M&NP is regulated by the National Energy Board in Canada, and the Federal Energy Regulatory Commission in the U.S., and has an overall allowed rate of return on equity of approximately 13.5%. The investment is accounted for on the equity basis. Emera's equity investment as at December 31, 2002 was $94.7 million (2001 – $79.6 million).
- An 8.4% interest in the offshore platforms and sub-sea gathering lines of the **Sable Offshore Energy Project (SOEP)**, acquired in 2001. SOEP has three offshore platforms in operation – North Triumph, Venture, and Thebaud – and currently produces an average of 550 million cubic feet of gas per day and 20,000 barrels per day of natural gas liquids. Emera structured a partnership with Pengrowth Energy Trust, whereby Pengrowth acquired effective interest in 8.4% of the SOEP reserves and related discovery areas and committed to continued development expenditures up to the wellhead. Pengrowth has contracted with Emera to utilize Emera's infrastructure assets to transport and process its gas and natural gas liquids, and to pay Emera a fee for each unit of volume produced and processed.
- **Emera Fuels**, an unregulated subsidiary, distributes home heating oil, heavy fuel oil, lubricants and related products to over 22,000 customers in the Maritime Provinces. Emera Fuels is focused on growing its energy distribution business by entering new geographic markets and increasing market share. The higher margin light fuel oil customer base was expanded significantly in the latter half of 2002 through aggressive sales and marketing efforts and the acquisition of two home heat companies.

In 2002, **Emera Energy** established an Energy Services business to provide fuel procurement, transportation and storage management, origination and trading, commodity marketing and risk management services to other Emera companies, principally Nova Scotia Power. As part of its decision in NSPI's 2002 Rate Application, the UARB required that fuel procurement, export sales and gas sales activities continue to be handled within the regulated entity Nova Scotia Power. Emera has complied, with the result that the scope of Emera's Energy Services business has been much reduced. Energy Services is now focused exclusively on origination, managing assets on behalf of third parties with minimal commodity risk.

REVIEW OF 2002

Emera Energy Earnings before interest and income taxes millions of $	2002	2001
Revenues		
Fuel oil sales	$ 66.0	$ 71.6
M&NP equity earnings	9.1	10.0
SOEP processing fees	11.2	8.0
	86.3	89.6
Expenses		
Cost of fuel oil sold	57.3	60.5
OM&G	24.4	7.1
Provincial taxes	0.4	0.5
Depreciation	6.5	4.9
Business development	17.8	5.9
(Loss) earnings before interest and income taxes	$ (20.1)	$ 10.7

In 2002, Emera Energy lost $20.1 million before interest and income taxes, compared to earnings of $10.7 million in 2001. There were several reasons for this:

- Increased business development activity, and associated project specific expenditures of $10.3 million.
- OM&G includes the write-off of $5.5 million of deferred costs related to the company's coal bed methane project, because of concerns regarding the economic feasibility in the foreseeable future.
- OM&G also includes a $6.4 million write-down of two turbines to reflect management's best estimate of projected future cash flows on these assets.
- The addition of Emera Energy Services.

Emera Fuels' revenues and cost of sales can vary substantially from period to period as a result of commodity price changes which impact both the revenue and cost of sales lines in approximately equal measure. Accordingly, gross margin, which reflects the net of revenue and cost of sales, is the most meaningful measure of financial performance. Emera Fuels' gross margin was $8.7 million for 2002, compared to $11.1 million in 2001. The decrease was largely in the industrial fuel oil sales operation, where the conversion of a major account to natural gas reduced volumes significantly. In addition, a six-month storage tank outage led to higher import costs, which decreased margins on industrial sales. As a result, Emera Fuels' earnings before interest and taxes decreased to $0.2 million in 2002, compared to $2.8 million in 2001.

The increase in SOEP processing fees reflects a full year of ownership, compared to 9 months in 2001. SOEP added $5.7 million in earnings before interest and taxes in 2002, compared to $4.1 million in 2001.

M&NP's after tax equity earnings decreased to $9.1 million in 2002, from $10.0 million in 2001. This was the result of lower earnings on short-term contracts in the US operation.

Emera Energy Services net margin was $0.7 million in 2002, its first year of operations., and its loss before interest and taxes was $3.2 million.

OUTLOOK

Emera Energy is narrowing the focus of its business development process in 2003. That sharper focus, combined with a somewhat slower than expected pace of offshore development prompted the company to streamline its business development operation. In addition, as previously noted, the scope of the Energy Services operation has been reduced. As a result of these circumstances the staff complement was reduced by 50% in late January, with a workforce reduction of 30.

The Sable Offshore Energy Project is developing the Alma field, the first of three fields that make up Tier II of the Project. The Alma processing platform will be located in 67 metres of water and will be connected to the Thebaud central processing platform via a 50-kilometre sub-sea pipeline. In 2002, pipeline laying activities were completed, and construction of the Alma platform and jacket commenced. Offshore installation is scheduled for 2003, with production start-up expected late in the year. Emera expects to invest approximately $25 million in the Alma facility. The Sable owners are currently evaluating whether to proceed with South Venture, the next Tier II field.

The Maritimes & Northeast Pipeline is proceeding with its Phase III expansion, which will connect M&NP to the Algonquin hubline, and ultimately to the 1,600 kilometre Algonquin pipeline system. The project includes construction of approximately 25 miles of onshore pipe from Methuen to Beverly, Mass, and is expected to be in service in June 2003. Total project cost is approximately $225 million, with Emera's 12.5% share approximately $30 million.

M&NP's planned $600 million Phase IV expansion is expected to add up to 400 million cubic feet per day of capacity by mid-decade to service Encana's Deep Panuke project. Encana is currently in the process of obtaining regulatory approvals.

Emera has entered into a joint venture with Duke Energy, its partner in the Maritimes & Northeast Pipeline, to explore the opportunity to develop a new undersea pipeline to transport natural gas from offshore to Goldboro, Nova Scotia. The project is now in the feasibility stage. The business case depends on securing the commitment of offshore producers to transport proven reserves via this pipeline. Ultimately, the pipeline system could serve several additional projects that might not otherwise be economically viable if the producer had to invest in stand-alone transportation assets.

Emera has entered into a joint venture with Falcon Gas Storage to develop high deliverability, multi cycle gas storage in New York State. Four potential properties are currently being investigated for suitability.

EMERA CORPORATE

OVERVIEW AND REVIEW OF 2002

Certain corporate-wide functions are carried out within Emera Corporate, such as strategic planning, treasury services, tax planning, and corporate governance. In addition, Emera Corporate serves as the financing vehicle for the corporation's business outside of its electric utilities. Subsidiaries whose operations are immaterial to the consolidated entity are also included in Emera Corporate.

In 2002, corporate expenses before interest and taxes were $5.9 million, compared to $4.4 million in 2001. This is primarily due to a decrease in the amount of corporate expenses allocated to NSPI as other Emera businesses comprise a more significant element of the consolidated total.

DEBT MANAGEMENT

Emera's target percentage of debt to total capitalization is 50%-55%, 10%-20% of which would be short-term. The Company manages debt terms such that the average is not less than ten years.

Emera has established the following credit facilities:

millions of $	Maturity	Maximum amount
Long-term		
Shelf Prospectus	2004	$ 300.0
Short-term		
Operating credit facility	1 Year Revolving	150.0
Acquisition credit facility	1 Year Revolving	400.0

In the second quarter of 2002, Emera Inc. sold $90.0 million principal amount of Series E1 Medium Term Notes. The Series E1 Notes bear interest at the rate of 6.00% and yield 6.133% per annum until April 17, 2006. The proceeds were used to refinance short-term debt. A total of $100.0 million of Series E1 Notes are now issued and outstanding.

In 2001 Emera issued $20.0 million of notes, with an average 6.15% coupon.

Emera Credit Ratings	DBRS		S&P	
	2002	2001	2002	2001
Long Term Corporate	BBB (High)	BBB (High)	BBB+	BBB+
Senior Unsecured Debt	BBB (High)	BBB (High)	BBB	BBB

CONSOLIDATED INTEREST, INCOME TAXES AND NON-CONTROLLING INTEREST

Interest

Consolidated interest expense increased to $145.4 million in 2002, from $122.7 million in 2001. The inclusion of Bangor Hydro's results for all of 2002 accounted for $13.6 million of the increase. Emera contributed $12.4 million to the increase, reflecting the issue of $90.0 million of long-term debt in 2002, and increased short-term debt due to a higher short-term debt to fund acquisitions. NSPI's interest expense decreased to $109.6 million in 2002 from $112.3 million in 2001. Savings were due mainly to reductions in the amount of long-term debt.

The company manages exposure to interest rate risk through a combination of fixed and floating borrowing, and hedging. Interest rate swaps are the principal instrument used to hedge interest rate risk. Further details on the company's interest rate risk management strategies are included in the Business Risks and Enterprise Risk Management section.

Income Taxes

In accordance with ratemaking regulations established by the UARB, NSPI uses the taxes-payable method of accounting for income taxes. Bangor Hydro uses the future income tax method where allowed for ratemaking purposes. Emera's remaining subsidiaries follow the future income tax method of accounting for income taxes.

NSPI

NSPI is subject to provincial capital tax (0.25%), large corporations tax (0.225%), corporate income tax (42.12%) and Part VI.1 tax relating to preferred dividends (40%).

NSPI used sufficient capital cost allowance, cumulative eligible capital deductions and loss carry-forwards to eliminate corporate income tax from 1999 through 2002.

Therefore, in 2002 income tax costs consisted only of Part VI.1 tax on NSPI preferred dividends of $5.6 million (2001 – $5.6 million). For financial reporting purposes, the Part VI.1 tax is allocated between income tax expense and non-controlling interest (preferred dividends).

The company has filed income tax returns for previous years to claim deductions related to the capitalization of interest on assets constructed by its predecessor, Nova Scotia Power Corporation (NSPC). The assets were purchased by NSPI in the course of privatizing NSPC in 1992. The deductions created substantial tax depreciation and tax loss carryforwards that were used to eliminate income taxes payable through 2002. The Canada Customs and Revenue Agency (CCRA) disallowed the deductions claimed, and NSPI pursued the issue through to the Tax Court of Canada. In January 2002, the Tax Court ruled in favor of Nova Scotia Power. The CCRA appealed the decision to the Federal Court, which overturned the Tax Court decision in January 2003. NSPI is seeking leave to appeal the Federal Court decision to the Supreme Court of Canada. It is expected to be some time before the matter is finally resolved.

Without the benefit of this additional deduction, it is estimated that the company's cumulative tax liability at December 31, 2002 would have been approximately $133 million (2001 – $110 million). Including interest, the total potential liability is approximately $160 million. It has not been reflected in the financial statements as management believes that the Company will be successful in its appeal. In 2001, NSPI was required to remit $25.0 million to CCRA on account of this matter. The company expects to deposit the balance in 2003. The UARB has provided an accounting order allowing NSPI to defer pre-2003 income tax owing, and associated interest while the matter is before the Supreme Court.

CONSOLIDATED BALANCE SHEETS

Significant changes in the consolidated balance sheets between December 31, 2001 and December 31, 2002 include:

- A $44.2 million decrease in inventory as NSPI reduced its stockpile of coal, and expensed the $13.4 million CBDC contract termination fee that was included in inventory in 2001.
- A $25.3 million increase in accounts receivable due substantially to natural gas sales in NSPI in December 2002, and the effect of the general rate increase, which took effect November 1, 2002.
- A $54.3 million reduction in total capitalization, from $3,590.8 million in 2001, to $3,536.5 million in 2002. Debt was reduced using operating cash flow and the proceeds from Emera's 9.5 million common share offering in December.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Cash Flow Highlights

Operating cash flow consists of cash generated from operations before considering the effect of changes in working capital. During 2002, consolidated operating cash flow was $256.0 million, compared to $236.9 million in 2001. The inclusion of Bangor Hydro for the entire year added $27.7 million of operating cash flow, and NSPI's operating cash flow increased $14.7 million. This was partially offset by increased cash expenses in Emera Corporate, including $12.4 million of interest expense.

Free cash flow is defined as cash provided by operating activities net of amounts required for capital investment in existing businesses and dividends on common shares. Free cash flow was $90.3 million in 2002, an increase of $218.8 million over 2001. In addi-

tion to the improvement in operating cash flow of $19.1 million, there was a $108.3 million reduction in net capital expenditures. 2001 capital expenditures included $52.0 million to acquire two turbines, and $12.0 million related to the purchase of the CBDC rail assets. In 2002, certain of the CBDC assets were sold, for proceeds of $26.2 million. Also contributing to the increase in free cash was the reduction in coal inventories in NSPI, which had been stockpiled in 2001 in anticipation of the closure of the CBDC.

PREFERRED SHARE ISSUE BY NSPI

In 2001 substantially all of the remaining NSPI Series B Preferred Shares and Purchase Warrants were exchanged for Series C Preferred Shares for total proceeds of $10.9 million. In 2002 the remaining Series B Preferred Shares were cancelled and the original investment was returned.

COMMON EQUITY ISSUES

On December 4, 2002, Emera completed an equity offering, issuing 9,500,000 new common shares for net proceeds of $149.5 million. Emera invested $75.0 million of the proceeds as new equity in NSPI, with the balance used to refinance short-term debt.

On March 23, 2001, Emera completed an equity offering, issuing 10,350,000 new common shares for net proceeds of $160.0 million. The funds were used to refinance debt and bank indebtedness and to finance new capital expenditures and investments.

DIVIDEND POLICY AND PAYOUT RATIOS

For 2002, Emera Inc.'s common dividend rate increased to $0.86 per common share ($0.2150 per quarter); the payout ratio increased to 101%, from 71% in 2001. In January 2003, in light of the increase in payout ratio, the Board of Directors maintained the 2003 first quarter common share dividend at $0.2150 per share.

BUSINESS RISKS AND ENTERPRISE RISK MANAGEMENT

Risk Management at Emera Inc.

All significant risk management activities for Emera are overseen by the Executive Risk Management Committee to ensure that risks are appropriately assessed, monitored and controlled within pre-determined risk tolerances established through Board approved policies.

The company's risk management activities are focused on those areas that most significantly impact profitability and quality of earnings. These risks include, but are not limited to, exposure to commodity prices, foreign exchange, credit risk and interest rates.

Commodity Prices

Substantially all of the company's annual fuel requirement for 2003 is subject to fluctuations in commodity market prices, prior to any commodity price risk management activities.

Coal/Petroleum Coke

Substantially all of the company's coal supply comes from international suppliers at prevailing market prices. The company has entered into fixed-price contractual arrangements with several coal suppliers to ensure reliability of both fuel supply and price. Physical contracts are used to hedge coal price risk due to the lack of liquidity in the financial markets for coal. Approximately 97% of coal and petroleum coke requirements for 2003 had been fixed as at December 31, 2002.

Heavy Fuel Oil

Emera manages exposure to changes in the market price of heavy fuel oil through the use of swaps, options and futures contracts. As at December 31, 2002, the price for approximately 70% of heavy fuel oil purchases for 2003, and a portion of anticipated requirements for 2004 had been fixed.

Natural Gas

The company has entered into a multi-year contract to purchase approximately 60 million cubic feet of natural gas per day. The contract fixes the price for a substantial portion of the gas volumes, with the balance exposed to market price fluctuations. The volumes exposed to market prices will be managed using either financial instruments or by selling natural gas at prices subject to market price fluctuations. NSPI's ability to sell natural gas is subject to the availability of pipeline transportation. The exposure to changes in gas prices for all anticipated gas purchases and sales for 2003 has been substantially reduced by December 31, 2002.

Fuel Mix

The risk inherent in the Canadian dollar cost of fuel is measured and managed on a portfolio basis. The ability to switch fuel provides a dynamic, operational and effective option in managing commodity price and supply risk.

Foreign Exchange

In 2003, the company expects approximately 80% of its anticipated net fuel costs to be denominated in U.S. dollars, as $US income from sales of surplus natural gas will provide a natural hedge against a portion of $US denominated fuel costs. Forward and option contracts are used to manage the exposure to fluctuating $US exchange rates. Foreign exchange contracts are in place for approximately 50% of 2003 anticipated $US net fuel costs.

$US payments received from the U.S. portion of our investment in the Maritimes & Northeast Pipeline will be used to repay $US debt.

Interest Rates

Emera manages interest rate risk through a combination of fixed and floating borrowing and a hedging program. Prior to hedging, floating rate debt is estimated to represent approximately 16% of total debt in 2002. Interest forward rate agreements and swaps are used to fix rates on part of the floating rate debt, while interest rate caps are used to insure against extreme movements of interest rates on floating debt. For 2003, interest on approximately 67% of the company's anticipated floating debt is fixed at an average rate of 4.91%. An additional 20% is capped and collared at an average rate of 5.71%.

Interest rate collars are used to partially hedge reinvestment risk on long-term fixed-rate debt. Fixed-rate debt maturities are limited in any one year and continually monitored to reduce rollover exposure.

Credit Risk

Credit risk arising as a result of contractual obligations between the corporation and other counterparties is managed by assessing the counterparties' financial creditworthiness prior to assigning credit limits based upon Board approved credit policies. The corporation frequently uses collateral agreements within its negotiated master agreements to further mitigate credit exposure.

Regulatory Risk

In December 2001 the Nova Scotia government released *Seizing the Opportunity: Nova Scotia's Energy Strategy*. The strategy for the electricity industry is to carefully increase competition over a prudent time frame. An Electricity Marketplace Governance Committee was established, to recommend to the Minister of Energy the implementation, development, structure and rules for the future electricity sector. In addition, consistent with recommendations put forward by Emera, the strategy indicates government will provide policy direction to the UARB to authorize open access transmission on NSPI facilities, and introduce competition in the wholesale market by 2005. The wholesale market comprises six municipal electric utilities, and represents approximately 1.6% of NSPI's revenues. These two recommendations will help Nova Scotia meet U.S. and other Canadian market reciprocity requirements, and thus facilitate electricity exports.

Broader restructuring of the electricity industry in Nova Scotia is not on the horizon in the medium term. The province's geographic location, the limits of inter-provincial transmission links, and the diversity of our customer base will help to reduce the impact of more significant move to restructuring on NSPI. In addition, the company is committed to enhancing its strong competitive and financial position by:

- managing costs through enhanced capacity management, reduced fuel and operating costs and efficient capital investment;
- working with customers to help them reduce energy costs, including providing them with greater access to time-of-use pricing;
- continuously improving customer service.

Natural Gas

Natural gas is presently available in Nova Scotia only to a few customers (including NSPI) who are served directly off the M&NP mainline and laterals. The timeline for the wide availability of gas suffered a delay when Sempra Atlantic Gas, who had been awarded the distribution rights for the province in 2000, halted work and surrendered the franchise in 2001. During 2002 the UARB held a second round of gas distribution franchise hearings and its decision on a new franchise holder is pending.

The major residential use expected for natural gas is for space heating, which makes up approximately 20% of NSPI's residential load. The costs to convert from electric heat are significant. Accordingly, natural gas may have little appeal for existing homes, but may be more popular for new construction. NSPI's ongoing attention to cost control and pricing, and its efforts to provide customers with options for managing their energy needs, with such things as electric thermal storage units, which allow customers to store heat during non-peak hours, will assist the company in managing natural gas competition.

The relative price of natural gas versus furnace oil is a critical factor customers will consider when choosing between these two fuel sources. Emera Energy's customer service staff is working with our fuel oil customers to help them understand their energy needs and how best to manage them, to ensure that furnace oil continues to be an attractive fuel source.

NSPI has implemented a favorable "load retention rate" aimed at those industrial customers who have the option to self generate using alternative fuel sources. NSPI is of the opinion that the load retention rate will make electrical pricing to industrial customers competitive with alternative fuel sources, and assist in maintaining a broad customer base for system cost recovery.

Environmental Considerations

Emera is committed to meeting its business objectives in a manner that is respectful and protective of the environment, and in full compliance with legal requirements and company policy. This commitment was reinforced in 2002 as Emera continued implementation of the Emera environmental policy through ongoing development of ISO 14001 equivalent management systems within all of its wholly owned subsidiaries.

Our environmental management systems are integral to the appropriate identification and management of key environmental aspects of Emera's business. The environmental aspect of most significance to Emera is related to atmospheric emissions, particularly those associated with NSPI.

On December 17, 2002, the federal government ratified the Kyoto Protocol to reduce greenhouse gases. Emera recognizes the importance of climate change and is committed to support prudent Canadian abatement efforts. However, Emera is concerned that the lack of a clearly articulated implementation plan for Kyoto does not allow an accurate determination of the impact of ratification on the company and its customers.

Over the last few years, a number of other government initiatives, leading to future emission reductions for other pollutants, have been developed. The most recent initiative applicable to Emera is the Nova Scotia Energy Strategy that sets several emission reduction targets. Consultations are underway between Emera and the provincial government to discuss the implementation of these targets.

Emera has embarked on a process to develop an Air Emission Strategy that establishes a long-term approach to comprehensively deal with an entire suite of air emissions, including those linked to climate change. The strategy is being designed to integrate the environmental, economic and social factors related to the control of these emissions.

Corporate Environmental Governance

In late 2001 the Board of Directors formed an Environment, Safety and Security Committee. The Committee met several times throughout 2002 and continues to carry out its overview role. As a further improvement to corporate governance, the Executive Risk Management Committee has begun to more comprehensively monitor environmental issues that may impact profitability.

The Emera Environmental Council, made up of senior employees with working accountability for environment, continues to refine its role of guiding the implementation of programs that address key environmental issues.

Emera prepares annual environmental reports to describe in more detail our environmental initiatives. The most recent reports are available at www.emera.com while historical reports can be found at www.nspower.ca/OurEnvironment.

Management Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Emera Inc. and the information in this annual report are the responsibility of management and have been approved by the Board of Directors ("Board").

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Nova Scotia Power Inc. ("NSPI"), one of Emera Inc.'s electric utilities and principal subsidiary, is regulated by the Nova Scotia Utility and Review Board, which also examines and approves NSPI's accounting policies and practices. Emera Inc.'s other utility, Bangor Hydro-Electric Company ("Bangor Hydro"), is regulated by the Maine Public Utilities Commission, which also examines and approves Bangor Hydro's accounting policies and practices. In preparation of these consolidated statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Management believes that such estimates, which have been properly reflected in the accompanying consolidated financial statements, are based on careful judgements and are within reasonable limits of materiality. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

Emera maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that Emera's assets are appropriately accounted for and adequately safeguarded.

The Board is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and its members are directors who are not officers or employees of Emera Inc. The Committee meets periodically with management, as well as with the internal auditors and with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

February 5, 2003

David McD. Mann
President and Chief Executive Officer

Ronald E. Smith, FCA
Senior Vice President and Chief Financial Officer

Auditors' Report

TO THE SHAREHOLDERS OF EMERA INC.

We have audited the consolidated balance sheets of Emera Inc. as at December 31, 2002 and 2001, and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Halifax, Canada
February 5, 2003

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

Financial Statements

CONSOLIDATED STATEMENTS OF EARNINGS

Year Ended December 31 millions of dollars (except earnings per common share)	2002	2001
Revenue		
Electric	$ 1,135.5	$ 914.7
Fuel oil	66.0	71.6
Other	25.4	17.6
	1,226.9	1,003.9
Cost of operations		
Fuel for generation and power purchased	453.2	341.6
Cost of fuel oil sold	57.3	60.5
Operating, maintenance and general	291.9	194.7
Grants in lieu of property taxes	15.2	13.2
Provincial capital tax	7.3	7.6
Depreciation	127.8	108.4
	952.7	726.0
Earnings from operations	274.2	277.9
Equity earnings (note 6)	7.0	9.6
Regulatory amortization	(23.0)	(9.3)
Allowance for funds used during construction	4.9	5.5
Earnings before interest and income taxes	263.1	283.7
Interest (note 7)	145.4	122.7
Amortization of defeasance costs	19.4	19.8
Earnings before income taxes	98.3	141.2
Income tax (note 8)	4.1	14.8
Net earnings before non-controlling interest	94.2	126.4
Non-controlling interest (note 8 and 16)	10.6	12.2
Net earnings applicable to common shares	$ 83.6	$ 114.2
Earnings per common share – basic (note 9)	$ 0.85	$ 1.20
Earnings per common share – diluted (note 9)	$ 0.84	$ 1.16

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year Ended December 31 millions of dollars	2002	2001
Retained earnings at beginning of year	$ 330.0	$ 296.8
Goodwill impairment (note 13)	(0.3)	–
Net earnings applicable to common shares	83.6	114.2
	413.3	411.0
Dividends	84.4	81.0
Retained earnings at end of year	$ 328.9	$ 330.0

See accompanying notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

As at December 31 millions of dollars	2002	2001
Assets		
Current assets		
Cash and cash equivalents	$ 28.5	$ 23.0
Accounts receivable (note 10)	156.3	131.0
Income tax receivable	31.1	22.3
Inventory	108.7	152.9
Prepaid expenses	7.1	5.2
	331.7	334.4
Deferred charges (note 11)	436.2	485.5
Future income tax asset (note 8)	26.4	11.2
Goodwill (note 13)	137.7	138.4
Investments (note 6)	112.2	98.6
Property, plant and equipment (note 12)	2,776.4	2,766.8
Construction work in progress	87.3	124.5
	2,863.7	2,891.3
	$ 3,907.9	$ 3,959.4
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt (note 14)	$ 203.9	$ 186.5
Short-term debt (note 15)	315.3	574.0
Accounts payable and accrued charges	175.1	175.1
Dividends payable	3.3	3.3
	697.6	938.9
Future income tax liability (note 8)	87.2	85.1
Deferred credits (note 11)	105.8	105.1
Long-term debt (note 14)	1,417.8	1,381.4
Non-controlling interest (note 16)	267.5	267.5
Shareholders' equity		
Common shares (note 17)	1,000.2	845.4
Foreign exchange translation adjustment (note 19)	2.9	6.0
Retained earnings	328.9	330.0
	1,332.0	1,181.4
	$ 3,907.9	$ 3,959.4

Commitments (note 20)

Contingencies (note 8)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors

Derek Oland
Chairman

David McD. Mann
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 millions of dollars (except operating cash flow per common share)	2002	2001
Operating activities		
Net earnings applicable to common shares	$ 83.6	$ 114.2
Non-cash items		
Depreciation	127.8	108.4
Amortization of deferred charges	23.6	23.4
Equity earnings	(7.0)	(9.6)
Regulatory amortization	23.0	9.3
Allowance for funds used during construction	(4.9)	(5.5)
Future income taxes	(13.1)	(1.8)
Other	23.0	(1.5)
Operating cash flow	256.0	236.9
Change in non-cash operating working capital	1.9	(91.8)
Net cash provided by operating activities	257.9	145.1
Financing activities		
Increase (reduction) of short-term debt	(151.8)	289.2
Proceeds from issue of common shares	154.4	164.6
Issue of preferred shares by NSPI	–	10.9
Issue of long-term debt	121.2	170.0
Retirements of long-term debt	(186.5)	(125.6)
Other financing activities	4.3	10.3
Net cash (used in) provided by financing activities	(58.4)	519.4
Investing activities		
Property, plant and equipment	(109.9)	(192.1)
Proceeds on sale of fixed assets	26.7	0.6
Investments	(25.5)	(5.0)
Acquisitions (note 3)	(0.9)	(369.7)
Net cash used in investing activities	(109.6)	(566.2)
Dividends on common shares	(84.4)	(81.0)
Increase in cash and cash equivalents	5.5	17.3
Cash and cash equivalents, beginning of year	23.0	5.7
Cash and cash equivalents, end of year	$ 28.5	$ 23.0
Cash and cash equivalents consists of:		
Cash	$ 15.2	$ 11.4
Short-term investments	13.3	11.6
Cash and cash equivalents, end of year	$ 28.5	$ 23.0
Operating cash flow per common share	$ 2.59	$ 2.48
Supplemental disclosure of cash paid:		
Interest	$ 148.5	$ 117.4
Income taxes	18.8	15.8
Dividends on common shares	84.4	80.4

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Emera Inc. ("Emera" or the Company), incorporated in the Province of Nova Scotia, through its principal subsidiaries, Nova Scotia Power Inc. ("NSPI") and Bangor Hydro-Electric Company ("Bangor Hydro"), is engaged in the production and sale of electric energy, which is regulated by the Nova Scotia Utility and Review Board ("UARB") and the Maine Public Utilities Commission ("MPUC"). Emera follows Canadian generally accepted accounting principles ("GAAP"). NSPI's accounting policies are subject to examination and approval by the UARB and are similar to those being used by other companies in the electric utility industry in Canada. Bangor Hydro's accounting policies are subject to examination and approval by the MPUC and are similar to those being used by other companies in the electric utility industry in Maine. The rate-regulated accounting policies of NSPI and Bangor Hydro may differ from GAAP for non rate-regulated companies. Where these differences are considered significant, disclosure of the policy has been made in these notes to the consolidated financial statements.

a. Consolidation The consolidated financial statements include the accounts of Emera Inc. and its subsidiaries. Significant intercompany transactions and accounts have been eliminated.

b. Measurement Uncertainty The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from these estimates.

c. Revenue Recognition The Company's revenue recognition policy is as follows:

- Electric: Revenues are recognized on the accrual basis, which includes an estimate of electricity consumed by customers in the year but billed subsequent to year-end.
- Fuel Oil: Revenues are recognized on delivery of product.
- Other: Revenues are recognized on the accrual basis, which includes an estimate for services performed and goods delivered during the year but billed subsequent to year-end. Unearned revenue is recorded as a deferred credit.

d. Allowance for Funds Used during Construction For the regulated electric business carried on by NSPI and Bangor Hydro, the Company provides for the cost of financing construction work in progress by including an allowance for funds used during construction ("AFUDC") as an addition to the cost of property constructed, using a weighted average cost-of-capital. The allowance will be charged to operations through depreciation over the service life of the related assets and recovered through future revenues.

e. Regulatory Amortization In accordance with the regulations of the UARB, significant assets of NSPI, which are not currently being used and are not expected to provide services to customers in the foreseeable future, are amortized over five years. In 2000 the UARB approved NSPI's request to amortize the Glace Bay generating station over 5 years. The UARB has allowed NSPI flexibility in determining the annual amount to be written off in order to support rate stabilization. NSPI is required to make a submission to the UARB, on November 1 of each year, recommending the amount to be amortized for the year. Once the UARB has approved the submission, NSPI charges the approved amount to net earnings.

In accordance with rate and accounting orders issued by the MPUC, Bangor Hydro has recorded regulatory assets and liabilities on its balance sheet. These regulatory assets and liabilities are being amortized over varying lives through charges to earnings.

f. Property, Plant and Equipment Property, plant and equipment are recorded at original cost, net of contributions in aid of construction. In accordance with its regulator approved accounting policies, when property, plant and equipment of NSPI and Bangor Hydro are replaced or retired, the original cost plus any removal costs incurred (net of salvage) are charged to accumulated depreciation. For the remainder of the Company, when property, plant and equipment are replaced or retired, any remaining net book value is charged to net earnings.

Depreciation is determined by the straight-line method, based on the estimated remaining service lives of the depreciable assets in each category.

The estimated average service lives for the major categories of plant in service are summarized as follows:

Functions	Average Service Life in Years
Generation	
Thermal	43
Gas turbine	36
Hydroelectric	77
Wind turbine	20
Transmission	47
Distribution	33
Offshore	Unit of production basis
Other	14

In accordance with the UARB, assets of NSPI, which are not currently being used, but will be useful in providing future service to customers, are not depreciated. Financing costs associated with assets not currently being used are deferred as incurred. Depreciation will occur when the asset goes into service. Significant costs in removing the asset from service may be deferred and amortized to earnings over a five-year period, subject to regulatory approval. Significant costs to return the asset to service are added to the capital cost of the asset.

g. Income taxes In accordance with ratemaking regulations established by the UARB, NSPI uses the taxes-payable method of accounting for income taxes. Bangor Hydro uses the future income tax method where allowed for ratemaking purposes. Emera's remaining subsidiaries follow the future income tax method of accounting for income taxes.

h. Employee Future Benefits Pension costs, and costs associated with non-pension post-retirement benefits such as health benefits to retirees and retirement awards, are actuarially determined using the projected benefit method prorated on services and management's best estimate assumptions. Pension fund asset values are calculated using market values at year-end. The expected return on pension assets is determined based on market-related values. The market-related values are determined in a rational and systematic manner so as to recognize asset gains and losses over a five-year period. Adjustments arising from plan amendments are amortized on a straight-line basis over the expected average remaining service period ("ARSP") of active employees. For any given year, when NSPI's net actuarial gain (loss), less the actuarial gain (loss) not yet included in the market-related value of plan assets, exceeds 10% of the greater of the accrued benefit obligation and the market-related value of the plan assets, an amount equal to the excess divided by the ARSP is amortized. The difference between pension expense and pension funding is recorded as a deferred asset or credit on the balance sheet. For Bangor Hydro this excess is amortized on a straight-line basis over the expected average remaining service life of employees, in accordance with ratemaking purposes.

During 2001 Emera introduced the option to its Canadian employees to participate in a defined contribution pension plan, in which the employees determined how to invest the funds. This choice did not include the option to transfer previous benefits from the defined benefit plan.

i. Stock-Based Compensation The Company has one stock-based compensation plan, which is a common share option plan for senior management of the Company. The Company accounts for its grants under this plan in accordance with the fair valued based method of accounting for stock-based compensation.

j. Cash and Cash Equivalents Short-term investments, which consist of money market instruments with maturities of three months or less, at an effective interest rate of 2.2% for 2002 (2001 – 4.3%), are considered to be cash equivalents and are recorded at cost, which approximates current market value.

k. Inventory Inventories of materials and supplies are valued at the lower of average cost and market. Coal and oil inventory is valued at the lower of cost, using the first-in, first-out method, and net realizable value.

l. Debt Financing and Defeasance Costs Financing costs pertaining to debt issues are amortized over the life of the related debt. The excess of the cost of defeasance investments over the face value of the related debt is deferred and amortized over the life of the defeased debt.

m. Costs to Terminate/Restructure Power Purchase Contracts Bangor Hydro has power purchase contracts, negotiated when oil prices were high, with several independent power producers known as small power production facilities. The cost of power from these facilities is more than Bangor Hydro would incur from other sources if it were not obligated under these contracts. Bangor Hydro has been attempting to alleviate the adverse impact of these high-cost contracts and in doing so has incurred costs to terminate or restructure certain of the contracts. The MPUC has allowed Bangor Hydro to defer these costs and recover them in rates. The annual amortization expense is approximately $32 million.

n. Seabrook Nuclear Project Bangor Hydro was a participant in the Seabrook nuclear project in Seabrook, New Hampshire. On December 31, 1984, Bangor Hydro had almost $87 million invested in Seabrook, but because the uncertainties arising out of the Seabrook Project were having an adverse impact on Bangor Hydro's financial condition, an agreement for the sale of Seabrook was reached in mid-1985 and was consummated in November 1986. In 1985 the MPUC issued an order disallowing recovery of certain Seabrook costs, but provided for the recovery through customer rates of 70% of Bangor Hydro's year-end 1984 investment in Seabrook Unit 1 over 30 years. The annual amortization expense is approximately $3 million.

o. Derivative Financial Instruments The Company uses various derivative financial instruments to hedge its exposure to foreign exchange, interest rate, and commodity price risks. These instruments are accounted for as hedges of anticipated transactions and, accordingly, gains and losses on these instruments are included in the measurement of the related hedged risk when realized.

On occasion, non-hedging contracts are entered into and are marked-to-market at each reporting date.

p. Goodwill Effective January 1, 2002, in accordance with new accounting standards, the Company no longer amortizes goodwill. Instead, the Company evaluates the carrying value of goodwill for potential impairment through an annual review and analysis of fair market value.

In accordance with the new standards for goodwill acquired after June 30, 2001, Emera has not amortized the goodwill acquired on the acquisition of Bangor Hydro.

q. Long-Term Investments The Company accounts for certain investments, over which it maintains significant influence but not control, using the equity method, whereby the amount of the investment is adjusted annually for the Company's pro-rata share of the income or loss of investment and reduced by the amount of any dividends received.

Emera accounts for its investments in Maritimes & Northeast Pipeline, Maine Yankee Atomic Power Company, Maine Electric Power Company Inc., and Greyhawk Natural Gas Storage using the equity method.

Long-term investments over which Emera does not have significant influence are accounted for on the cost basis.

r. Deferred Gain on Asset Sale In 1999, Bangor Hydro completed a transaction for the sale of substantially all of its electric generating assets and certain transmission rights. Bangor Hydro realized a net gain on the sale, which was recorded as a deferred credit. As specified in its February 2000 MPUC rate order, the deferred gain is being utilized over a 70-month period to reduce electric rates. The annual amortization amounts are recognized in an uneven manner in order to levelize Bangor Hydro's revenue requirement.

s. Foreign Currency Translation Monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at rates of exchange prevailing at the balance sheet date. The resulting differences between the translation at the original transaction date and the balance sheet date are charged to earnings.

Assets and liabilities of self-sustaining foreign operations are translated using the exchange rates in effect at the balance sheet date and the results of operations at the average rates for the period. The resulting exchange gains and losses are deferred and included in a separate component of shareholders' equity.

2. CHANGE IN ACCOUNTING POLICIES

In 2002 the Company adopted the new accounting requirements for stock-based compensation. The Company has adopted the fair value based method of valuation for determining the amount of compensation expense to recognize. As discussed in note 17, the adoption of these new accounting requirements has resulted in an additional $0.4 million of compensation expense.

In 2002 the Company adopted the new accounting requirements for goodwill and intangibles. Previously, the Company had amortized goodwill over 20 years. Under the new recommendations, goodwill is no longer amortized but is instead subjected to an annual impairment test with any resulting impairment charged to net earnings. As part of the new standards, the Company did not amortize goodwill on acquisitions completed after June 30, 2001. Accordingly, no goodwill acquired on the purchase of Bangor Hydro was amortized. As discussed in note 13, the resulting impact of the Company's initial transitional impairment test for January 1, 2002 was a charge to retained earnings of $0.3 million.

In 2002 the Company adopted the new provisions for classification of short-term debt obligations expected to be refinanced. Under the new standard, debt obligations, which are short-term, should be reclassified as long-term if the Company has the intention and the unencumbered ability to refinance the obligations for a period greater than one year. This assessment is performed by taking into account both the actual level of short-term debt at the end of the fiscal year and the forecasted levels of debt for the period to the end of the next fiscal year. The new provisions became effective on January 1, 2002 and have been applied prospectively. As a result, as at December 31, 2002, the Company has reclassified $120 million of debt from short-term to long-term.

In 2002 NSPI changed its policy regarding employee future benefits to use market-related values instead of market values to calculate the expected return on its plan assets. The change entails recognizing changes in the actual fair value of the plan assets in a rational and systematic manner over a five-year period. The change has been applied retroactively but with no resulting material adjustments. The impact on the current year of changing this policy was to reduce the expense by $5.8 million.

In 2001 the Company adopted the new accounting standards for the disclosure of diluted earnings per common share.

3. ACQUISITIONS

The acquisitions described below have been accounted for under the purchase method of accounting, and accordingly the results of operations since the dates of acquisition have been included in the consolidated statement of operations.

2002 During 2002 Emera Fuels acquired various fuel oil delivery companies for cash consideration of $0.9 million. The assets purchased consisted of property, plant and equipment ($0.3 million) and goodwill ($0.6 million).

2001 In October 2001 the Company purchased 100% of the voting common shares of Bangor Hydro-Electric Company, an electric energy transmitter and distributor in central Maine. The following summarizes the transaction (in millions of dollars):

Net Assets Acquired	
Net working capital	$ (0.7)
Property, plant and equipment	373.0
Investments	14.7
Deferred charges	205.7
Goodwill	129.3
Long-term debt	(241.7)
Short-term debt	(9.4)
Future income tax liability	(77.6)
Deferred credits	(69.3)
Non-controlling interest	(7.4)
Total cash consideration	$ 316.6

In June 2001 the Company acquired an 8.4% interest in the Sable Offshore Energy Project offshore platforms and associated sub-sea field gathering lines for $53.1 million.

4. SEGMENT INFORMATION

The Company has three reportable segments: NSPI, Bangor Hydro, and Emera Energy. The Company evaluates performance based on earnings before interest and taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Reportable segments are determined based on Emera's operating activities. NSPI is engaged in the production and sale of electric energy in Nova Scotia; Bangor Hydro is engaged in the transmission and distribution of electric energy in central Maine; and Emera Energy includes the Company's activities in the transportation and distribution of natural gas and fuel oil products.

	NSPI		Bangor Hydro		Emera Energy		Other*		Total	
millions of dollars	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Revenues from external customers	$ 865.8	$ 838.6	$ 263.6	$ 82.0	$ 93.1	$ 82.3	$ 4.4	$ 1.0	$ 1,226.9	$ 1,003.9
Depreciation	103.9	99.6	16.6	3.5	6.5	4.9	0.8	0.4	127.8	108.4
Cost of operations	637.9	577.6	195.0	61.8	121.6	81.1	(1.8)	5.5	952.7	726.0
Net inter-segment revenues/(expenses)	4.2	18.6	(1.0)	–	(17.9)	(18.4)	14.7	(0.2)	–	–
Equity earnings	–	–	–	–	7.0	9.6	–	–	7.0	9.6
Earnings before interest and taxes	241.0	263.1	48.1	14.3	(20.1)	10.7	(5.9)	(4.4)	263.1	283.7
Segment assets	2,883.3	2,904.9	752.3	789.8	262.0	232.5	10.3	32.2	3,907.9	3,959.4
Total investing activities*	104.6	111.8	15.8	9.9	30.7	112.6	(41.5)	331.9	109.6	566.2
Goodwill acquired	–	–	–	–	0.6	–	–	129.3	0.6	129.3
Goodwill impairment loss	–	–	–	–	–	–	0.3	–	0.3	–

*Other consists of items related to corporate activities and other subsidiaries. Other investing activities, for 2001, include the acquisition of Bangor Hydro.

5. EMPLOYEE FUTURE BENEFITS

Emera maintains contributory defined-benefit and defined-contribution pension plans, which cover substantially all of its employees, and plans providing non-pension benefits for its retirees. The details of these plans are outlined below:

Nova Scotia Power

millions of dollars	2002 Defined-benefit pension plans	2002 Non-pension benefits plans	2001 Defined-benefit pension plans	2001 Non-pension benefits plans
Assumptions				
Discount rate	6.50%	6.50%	6.75%	6.75%
Long-term rate of return on plan assets	7.50%	–	8.00%	–
Rate of compensation increase	3 to 5.5%	3 to 5.5%	3 to 5.5%	3 to 5.5%
Health care trend – current	–	10.00%	–	11.00%
– ultimate	–	4.00%	–	4.00%
Accrued benefit obligations				
Balance, January 1	$ 514.4	$ 35.1	$ 475.6	$ 33.1
Employer current service cost	7.8	1.3	7.4	1.1
Employee contributions	4.9	–	4.9	–
Interest cost	34.0	2.4	31.7	2.3
Actuarial loss (gain)	21.5	(3.7)	18.9	1.5
Benefits paid	(32.8)	(1.4)	(24.1)	(2.9)
Balance, December 31	$ 549.8	33.7	$ 514.4	$ 35.1
Fair value of plan assets				
Balance, January 1	$ 459.0	–	$ 478.2	–
Employee contributions	4.9	–	4.9	–
Employer contributions	8.9	1.4	8.9	2.9
Actual investment income	(33.2)	–	(8.9)	–
Benefits paid	(32.8)	(1.4)	(24.1)	(2.9)
Balance, December 31	$ 406.8	–	$ 459.0	–
Plan deficit	$ (143.0)	$ (33.7)	$ (55.4)	$ (35.1)
Unamortized past service costs	1.2	–	1.3	–
Unamortized actuarial losses	181.1	0.4	90.4	4.2
Unamortized transitional obligation	0.2	22.4	0.2	24.6
Accrued benefit asset (liability)	$ 39.5	$ (10.9)	$ 36.5	$ (6.3)
Expense				
Current service costs	$ 7.8	$ 1.3	$ 7.4	$ 1.1
Interest on accrued benefits	34.0	2.4	31.7	2.3
Less: expected return on plan assets	(36.4)	–	(37.9)	–
Amortization of actuarial losses	0.5	0.1	–	–
Amortization of transitional liability	–	2.2	–	2.2
Amortization of past service costs	0.1	–	0.9	–
Change in valuation allowance	–	–	(8.1)	–
Total Expense	$ 6.0	$ 6.0	$ (6.0)	$ 5.6
Defined-contribution plan				
Employer expense	$ 0.6	–	$ 0.3	–

The expected return on plan assets is determined based on the market-related value of plan assets of $495.5 million at January 1, 2002, adjusted for interest on certain cash flows during the year.

Bangor Hydro

millions of dollars	2002 Defined-benefit pension plans	2002 Non-pension benefits plans	2001 Defined-benefit pension plans	2001 Non-pension benefits plans
Assumptions				
Discount rate	6.75%	6.75%	7.25%	7.25%
Long-term rate of return on plan assets	8.00%	5.00%	9.00%	5.00%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Health care trend – current	–	9.00%	–	7.50%
– ultimate	–	5.00%	–	5.00%
Accrued benefit obligations				
Balance, January 1/acquisition date	$ 85.0	$ 43.8	$ 82.9	$ 42.6
Employer current service cost	1.4	0.9	0.6	0.3
Interest cost	6.2	3.2	1.4	0.7
Actuarial loss (gain)	3.6	2.4	(0.1)	(0.1)
Benefits paid	(5.3)	(1.6)	(1.1)	(0.4)
Amendments	3.2	–	–	–
Special termination charge	2.5	2.1	–	–
Foreign currency translation adjustment	(0.7)	(0.4)	1.3	0.7
Balance December 31	$ 95.9	$ 50.4	$ 85.0	$ 43.8
Fair value of plan assets				
Balance, January 1/acquisition date	$ 66.0	$ 1.6	$ 62.1	$ 1.5
Employer contributions	0.2	1.4	–	0.6
Retiree medical contributions	–	0.1	–	–
Actual investment income	(5.8)	–	4.0	(0.1)
Benefits paid	(5.3)	(1.6)	(1.1)	(0.4)
Foreign currency translation adjustment	(0.7)	–	1.0	–
Balance December 31	$ 54.4	$ 1.5	$ 66.0	$ 1.6
Plan deficit	$ (41.5)	$ (48.9)	$ (19.0)	$ (42.2)
Unamortized past service costs	6.0	–	3.1	–
Unamortized actuarial losses	26.1	15.1	11.2	14.0
Unamortized transitional obligation	–	7.9	–	8.8
Unamortized special termination charge	2.4	2.0	–	–
Accrued benefit liability	$ (7.0)	$ (23.9)	$ (4.7)	$ (19.4)
Expense				
Employer current service costs	$ 1.4	$ 0.9	$ 0.6	$ 0.3
Interest on accrued benefits	6.2	3.2	1.4	0.7
Less: expected return on plan assets	(6.2)	–	(1.7)	–
Amortization of actuarial losses	0.3	–	0.1	0.2
Amortization of transitional liability (asset)	–	0.8	(0.2)	0.2
Amortization of past service costs	0.7	1.0	0.3	–
Amortization of special termination charge	0.2	0.1	–	–
	$ 2.6	$ 6.0	$ 0.5	$ 1.4
Defined-contribution plan				
Employer expense	$ 0.4	–	$ 0.2	–

The expected return on plan assets is determined based on the market-related value of plan assets of $80.9 million at January 1, 2002, adjusted for interest on certain cash flows during the year.

6. INVESTMENTS AND EQUITY EARNINGS

Investments are comprised of the following:

millions of dollars	2002		2001	
	Carrying value	Equity earnings	Carrying value	Equity earnings
Equity accounted investments				
Maritimes & Northeast Pipeline	$ 94.7	$ 9.1	$ 79.6	$ 10.0
Maine Yankee Atomic Power Company	6.4	–	7.1	–
Maine Electric Power Company Inc.	1.6	–	1.4	–
Greyhawk Natural Gas Storage	2.5	(2.1)	3.5	(0.4)
Intragas Energy	1.9	–	–	–
Total equity investments	107.1	7.0	91.6	9.6
Long-term portfolio investments	5.1	–	7.0	–
	$ 112.2	$ 7.0	$ 98.6	$ 9.6

7. INTEREST

Interest expense consists of the following:

millions of dollars	2002	2001
Interest on long-term debt	$ 118.4	$ 102.9
Interest on short-term debt	26.9	19.2
Amortization of debt financing	1.4	0.9
Foreign exchange losses	0.7	0.1
	147.4	123.1
Less:		
Defeasance earnings and other interest income	(2.0)	(0.4)
	$ 145.4	$ 122.7

8. INCOME TAXES

The income tax provision differs from that computed using the statutory rates for the following reasons:

millions of dollars	2002		2001	
Earnings before taxes	$ 98.3		$ 141.2	
Income taxes, at statutory rates	41.4	42.1%	62.3	44.1%
Unrecorded future income taxes on regulated earnings	(38.4)	(39.1)	(50.2)	(35.5)
Equity earnings not subject to tax	(3.9)	(4.0)	(4.2)	(3.0)
Foreign tax rate variance	(1.2)	(1.2)	(0.5)	(0.4)
Large Corporations Tax	6.3	6.4	6.6	4.7
Other	(0.1)	–	0.8	0.6
	4.1	4.2%	14.8	10.5%
Income tax – current	22.4		14.5	
Income tax – future	$ (18.3)		$ 0.3	

The future income tax asset and liability comprise the following:

millions of dollars	2002	2001
Future income tax asset:		
Tax loss carry forwards	$ 28.7	$ 11.0
Property, plant and equipment	(4.9)	–
Deferred charges	2.2	–
Other	0.4	0.2
	$ 26.4	$ 11.2
Future income tax liability:		
Tax loss carryforwards	$ (1.8)	$ (0.9)
Deferred charges	9.1	26.7
Regulatory assets	11.4	13.5
Investments	2.6	1.5
Property, plant and equipment	69.7	44.2
Financing	(3.8)	–
Other	–	0.1
	$ 87.2	$ 85.1

NSPI filed income tax returns for previous years that increased the tax depreciation (capital cost allowance) available to be deducted against the Company's future taxable income. Those returns were reassessed by the Canada Customs and Revenue Agency (CCRA), which disallowed the deductions claimed. A notice of objection was filed with respect to the reassessments, and the issue was litigated. In January 2002 NSPI received a favourable decision from the Tax Court of Canada with respect to CCRA's reassessment of its corporate income tax returns. CCRA appealed the decision to the Federal Court of Appeal which, in January 2003, overturned the Tax Court ruling. NSPI is seeking leave to appeal the decision to the Supreme Court of Canada.

Without the benefit of this additional deduction, it is estimated that the Company's tax liability at December 31, 2002 would have been approximately $133 million. This potential tax liability has not been reflected in the financial statements as on February 5, 2003 the UARB provided an accounting order providing for deferral of any amount until the matter is finally settled. At December 31, 2002, assuming that NSPI is successful in its appeal to the Supreme Court, NSPI's unrecorded future income tax asset is approximately $283 million (2001 – $320 million), a decrease of approximately $37 million (2001 – $80 million) from the previous year. The asset consists of deductible temporary differences of $715 million (2001 – $760 million) and unused non-capital tax losses of approximately $30 million (2001 – $32 million), which are expected to expire as follows:

2003	$12.6 million
2004	$ 0.9 million
2008	$16.5 million

If NSPI is unsuccessful in appealing the January 2003 Federal Court's decision, the unrecorded future income tax asset of NSPI would be approximately $65 million, consisting of deductible temporary differences of $171 million.

NON-CONTROLLING INTEREST

Non-controlling interest consists of NSPI and Bangor Hydro preferred share dividends less a net recovery of income tax expense of $3.9 million (2001 – $2.0 million). The income tax recovery of $9.5 million in 2002 (2001 – $7.6 million) is reflected as a reduction of preferred share dividends with an offsetting increase in income tax expense.

millions of dollars	2002	2001
Preferred share dividend	$ 14.5	$ 14.2
Part VI.1 tax on preferred share dividends	5.6	5.6
Part I tax recovery related to the Part VI.1 tax deduction – current year	(5.2)	(5.4)
Part I tax recovery related to the Part VI.1 tax deduction – prior years	(4.3)	(2.2)
	$ 10.6	$ 12.2

9. DILUTED EARNINGS PER SHARE

Basic earnings per share is diluted as follows:

			2002
	Net earnings ($ millions)	Weighted average common shares (millions)	EPS ($)
Basic EPS	$ 83.6	98.9	$ 0.85
Employee share plans	–	0.1	
Diluted EPS	$ 83.6	99.0	$ 0.84

Basic earnings per share is diluted as follows:

			2001
	Net earnings ($ millions)	Weighted average common shares (millions)	EPS ($)
Basic EPS	$ 114.2	95.5	$ 1.20
Employee share plans	–	0.1	
Series C preferred shares of NSPI	6.5	7.5	
Series D preferred shares of NSPI	8.4	8.1	
Diluted EPS	$ 129.1	111.2	$ 1.16

Senior management stock options, whose exercise price exceeded the average market price for the period, were excluded from the above calculations because they were anti-dilutive. Preferred shares in NSPI were excluded from the above calculations for 2002 because they were anti-dilutive.

10. ACCOUNTS RECEIVABLE SECURITIZATION

In February 2002, NSPI renewed an agreement with a third party to sell up to $88 million of high quality accounts receivables on a revolving basis. As part of the agreement, NSPI continues to service all accounts receivables and retains an interest in 10% of the accounts receivables sold, which has been recorded as a deferred charge. This retained interest is measured at its carrying value, which is substantially equal to its fair value. At December 31, 2002, net trade receivables sold amounted to $75 million (2001 – $71 million).

11. DEFERRED CHARGES AND CREDITS

Deferred charges and credits comprise the following:

millions of dollars	2002	2001
Deferred charges:		
Unamortized debt financing and defeasance costs	$ 215.6	$ 229.6
Costs to terminate/restructure purchased power contracts	114.7	146.6
Seabrook nuclear project	34.5	37.5
Accrued pension and non-pension benefit asset (note 5)	28.6	30.2
Deferred coal bed methane exploration costs	–	5.5
Other	42.8	36.1
	$ 436.2	$ 485.5
Deferred credits:		
Future site restoration liability	$ 25.8	$ 24.4
Accrued pension and post-retirement benefit costs (note 5)	30.9	24.1
Deferred gain on asset sale	15.6	23.2
Unearned revenue	12.4	0.2
Other	21.1	33.2
	$ 105.8	$ 105.1

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

millions of dollars	Cost	Accumulated Depreciation	2002 Net Book Value
Generation			
Thermal	$ 1,587.2	$ 581.8	$ 1,005.4
Gas Turbine	35.0	28.1	6.9
Hydroelectric	354.9	114.9	240.0
Wind Turbine	3.2	–	3.2
Transmission	661.5	261.1	400.4
Distribution	1,246.9	487.7	759.2
Offshore	67.8	7.8	60.0
Other	389.9	88.6	301.3
	$ 4,346.4	$ 1,570.0	$ 2,776.4

millions of dollars	Cost	Accumulated Depreciation	2001 Net Book Value
Generation			
Thermal	$ 1,554.4	$ 548.5	$ 1,005.9
Gas Turbine	34.4	27.3	7.1
Hydroelectric	351.7	111.0	240.7
Transmission	675.4	246.0	429.4
Distribution	1,223.9	457.9	766.0
Offshore	53.1	3.3	49.8
Other	348.5	80.6	267.9
	$ 4,241.4	$ 1,474.6	$ 2,766.8

At December 31, 2002, the Glace Bay generating station had a net book value of $27.0 million (2001 – $26.2 million). During the year NSPI amortized $1.0 million (2001 – $3.0 million) related to the plant, and capitalized $1.8 million in AFUDC (2001 – $1.7 million) to the plant value. During the year the Company recognized impairment of $6.4 million on assets included in construction work in progress, a reflection of management's best estimate of projected future cash flows on these assets.

13. GOODWILL

The change in goodwill is due to the following:

millions of dollars	2002	2001
Balance, beginning of year	$ 138.4	$ 7.0
Acquired during the year	0.6	129.3
Impairment losses recognized	(0.3)	–
Amortization	–	(0.4)
Change in foreign exchange rate	(1.0)	2.5
Balance, end of year	$ 137.7	$ 138.4

During the first quarter of 2002, the Company adopted the new accounting recommendations for goodwill. Previously, the Company amortized goodwill over 20 years. Under the new recommendations, goodwill is no longer amortized but is instead subjected to an annual impairment test with any resulting impairment charged to earnings. The Company was also required to perform an initial impairment test as of January 1, 2002, and to charge any impairment to opening retained earnings.

As a result of its initial goodwill impairment tests, the Company determined that goodwill impairment existed in one of its subsidiaries. The cause of the impairment was lower estimates of future profitability and resulted in a charge to retained earnings of $0.3 million.

In 2001 the Company adopted the new accounting requirements for goodwill in relation to acquisitions completed after June 30, 2001. In accordance with the new standards, goodwill acquired on the purchase of Bangor Hydro has not been amortized.

Pro-forma net earnings applicable to common shares adjusted for the effect of goodwill amortization prior to 2002 are:

millions of dollars	2002	2001
Net earnings applicable to common shares, as reported	$ 83.6	$ 114.2
Goodwill amortization	–	0.4
Net earnings applicable to common shares, adjusted	$ 83.6	$ 114.6

14. LONG-TERM DEBT

Long-term debt includes the issues detailed below. All long-term debt instruments are issued under trust indentures at fixed interest rates, and are unsecured. Also included are certain bankers acceptances and commercial paper where the Company has the intention and the unencumbered ability to refinance the obligations for a period greater than one year.

millions of dollars	Effective Average Interest Rate %	Years of Maturity	2002	2001
Emera				
Medium Term Notes	6.000	2006	$ 100.0	$ 10.0
Private Placement	6.297	2006	10.0	10.0
Bankers Acceptances	2.980	One year renewable	9.0	–
NSPI				
Medium Term Notes	7.321	2002 – 2097	940.0	1,060.0
Debentures	8.490	2003 – 2019	245.0	245.0
Commercial paper	2.730	One year renewable	111.0	–
Bangor Hydro (issued and payable in US$)				
Medium Term Notes	2.984	2002	–	8.7
First Mortgage Bonds	9.177	2002 – 2022	102.6	135.4
Financing Authority of Maine	7.030	2005	87.4	113.9
Municipal Review Committee	5.000	2008	18.5	21.1
Senior unsecured note	6.090	2012	31.6	–
Less: Sinking Funds			(33.4)	(36.2)
			1,621.7	1,567.9
Less: Amount due within one year			203.9	186.5
			$ 1,417.8	$ 1,381.4

Repayments of long-term debt are due as follows:

millions of dollars

Year of Maturity	2002	2001
One year renewable	$ 120.0	–
2002	–	$ 186.5
2003	203.9	204.0
2004	172.0	172.3
2005	103.2	134.7
2006	153.6	63.7
2007	4.1	–
Greater than 5 years	864.9	806.7
	$ 1,621.7	$ 1,567.9

15. SHORT-TERM DEBT

Short-term debt consists of commercial paper of $115.6 million (2001 – $219.2 million), bankers' acceptances of $128.0 million (2001 – $300.3 million), and LIBOR loans of $27.1 million (2001 – $25.6 million) issued against lines of credit. Commercial paper, bankers' acceptances and LIBOR loans bear interest at prevailing market rates, which on December 31, 2002, averaged 2.88%, 3.36% and 2.02% respectively (2001 – 2.96%, 2.88% and 2.52%). The operating line of credit consists of advances of $19.4 million (2001 – $16.2 million), which when drawn upon, bears interest at the prime rate, which on December 31, 2002, was 4.5% (2001 – 4.00%). The short-term debt in NSPI and Emera is unsecured. Also, Bangor Hydro has a revolving credit loan agreement of $25.2 million (2001 – $12.7 million) that bears interest of 2.4% (2001 – 4.40%). This revolving credit loan is secured by a First Mortgage Bond.

16. NON-CONTROLLING INTEREST

The non-controlling interest represents preferred shares that are held in Nova Scotia Power Inc. and Bangor Hydro-Electric Company.

AUTHORIZED:

Nova Scotia Power
Unlimited number of First Preferred Shares, issuable in series.
Unlimited number Second Preferred Shares, issuable in series.

Bangor Hydro
600,000 non-participating, cumulative preferred shares, par value US$100 per share, redeemable at the option of the issuer.

ISSUED AND OUTSTANDING:

millions of dollars	Millions of Shares	Preferred Share Capital
January 1, 2001	10.40	$ 249.1
Converted Series B First Preferred Shares	(0.58)	–
Issued Series C First Preferred Shares	0.58	10.9
Preferred shares issued by Bangor Hydro prior to acquisition	0.05	7.5
December 31, 2001	10.45	$ 267.5
December 31, 2002	10.45	$ 267.5

Nova Scotia Power

Series B Preferred Shares and Series C Purchase Warrants

On March 8, 1999, NSPI issued 5,000,000 First Preferred Share Units at a price of $6.25 per unit. Each unit consisted of one non-detachable cumulative, redeemable First Preferred Share, Series B and a Warrant to purchase one cumulative, redeemable First Preferred Share, Series C for cash consideration of $18.75. On October 1, 2000, unit holders exercised 4,417,116 Series C purchase warrants and Series B preferred shares, and converted them to Series C First Preferred Shares. Virtually all of the remaining Series C purchase warrants and Series B preferred shares were exercised on either January 1 or April 1, 2001 with a cash payment of $18.75. The remaining 1,305 Series B preferred shares, which had not been converted to Series C, were cancelled in the second quarter of 2002 and each shareholder received their original investment.

Series C Preferred Shares

Each Preferred Share Series C is entitled to a $1.225 per share per annum fixed cumulative preferential dividend, as and when declared by the Board of Directors, which will accrue from the date of issue and be payable quarterly on the first day of January, April, July and September of each year. On or after April 1, 2009, NSPI may redeem for cash the Preferred Share Series C, in whole at any time or in part from time to time at $25.00 per share plus accrued and unpaid dividends.

Series D Preferred Shares

On October 31, 2000, NSPI issued 5,400,000 First Preferred Shares for a price of $25 per share. Each share is entitled to a fixed cumulative cash dividend of $1.475 per share per annum, as and when declared by the Board of Directors. These dividends will accrue from the date of issue and will be payable quarterly on the fifteenth day of January, April, July, and October of each year. On or after October 15, 2015, NSPI may redeem for cash the Preferred Share Series D, in whole at any time, at $25 per share plus accrued and unpaid dividend.

Bangor Hydro

The preferred shares issued by Bangor Hydro consist of three separate issues:

- 25,000 non-callable 7% preferred shares
- 4,840 callable 4.25% preferred shares
- 17,500 Series A callable 4% preferred shares

17. COMMON SHARES

AUTHORIZED:

Unlimited number of non-par value Common Shares.

ISSUED AND OUTSTANDING:

millions of dollars	Millions of Shares	Preferred Share Capital
January 1, 2001	87.35	$ 680.8
New common share issue	10.35	160.0
Issued for cash under purchase plans	0.25	4.0
Options exercised under senior management stock option plan	0.05	0.6
December 31, 2001	98.00	845.4
New common share issue	9.50	149.5
Issued for cash under purchase plans	0.28	4.6
Options exercised under senior management stock option plan	0.02	0.3
Stock-based compensation	–	0.4
December 31, 2002	107.80	$ 1,000.2

DIVIDEND REINVESTMENT AND EMPLOYEE COMMON SHARE PURCHASE PLANS

The Company has a Common Shareholder Dividend Reinvestment Plan and an Employee Common Share Purchase Plan, which provide an opportunity for shareholders and Company employees to reinvest dividends and employees to make cash contributions for the purpose of purchasing common shares.

STOCK-BASED COMPENSATION PLAN

The Company has a common share option plan that grants options to senior management of the Company for a maximum term of ten years. The option price for these shares is the closing market price of the shares on the day before the option is granted.

All options granted to date are exercisable on a graduated basis with up to 25 percent of options exercisable on the first anniversary date and in further 25 percent increments on each of the second, third and fourth anniversaries of the grant. If an option is not exercised within ten years, it expires and the optionee loses all rights thereunder. The holder of the option has no rights as a shareholder until the option is exercised and shares have been issued. The maximum number of such shares optioned to anyone cannot exceed one percent of the issued and outstanding common shares on the date the option is granted.

If, before the expiry of an option in accordance with its terms, the optionee ceases to be an eligible person due to retirement or a change of responsibility at the Company's request, such option may, subject to the terms thereof and any other terms of the plan, be exercised at anytime within the 24 months following the date the optionee retires, but in any case prior to the expiry of the option in accordance with its terms.

If, before the expiry of an option in accordance with its terms, the optionee ceases to be an eligible person due to employment termination for just cause, resignation or death, such option may, subject to the terms thereof and any other terms of the plan, be exercised at anytime within the six months following the date the optionee is terminated, resigns, or dies, as applicable, but in any case prior to the expiry of the option in accordance with its terms.

	2002		2001	
	Shares under option	Weighted average exercise price	Shares under option	Weighted average exercise price
Outstanding, beginning of year	770,150	$ 15.61	620,000	$ 15.21
Granted	550,100	$ 16.65	256,400	$ 16.79
Exercised	(22,500)	$ 13.00	(51,250)	$ 13.53
Expired	(10,000)	$ 19.30	(55,000)	$ 18.50
Outstanding, end of year	1,287,750	$ 16.07	770,150	$ 15.61
Exercisable, end of year	497,825	$ 15.52	306,250	$ 15.06

The weighted average contractual life of options outstanding at December 31, 2002 is 7.0 years (2001 – 7.5 years). The range of exercise prices for the options outstanding at December 31, 2002 is $11.25 to $19.30 (2001 – $11.25 to $19.30).

The Company is using the fair value based method to measure the compensation expense related to this plan, and has recorded $0.4 million of compensation expense related to new awards granted since the inception of the new stock-based compensation recommendations on January 1, 2002.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for the grants:

December 31	2002
Dividend yield	5.31%
Expected volatility	15.8%
Risk-free interest rate	5.03%
Expected life	7 years

18. FINANCIAL INSTRUMENTS

Financial instruments include the following:

millions of dollars	2002		2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	$ 1,621.7	$ 1,796.9	$ 1,567.9	$ 1,706.9
Short-term debt	315.3	316.8	574.0	560.0
Derivative financial instruments (hedges)				
Interest rate swaps	0.9	9.0	(0.1)	12.0
Interest rate caps and collars	–	0.8	1.1	0.4
Natural gas swaps		(1.7)	–	–
Natural gas caps and collars	2.1	(1.5)	0.2	(0.2)
Oil swaps	–	(8.0)	–	2.3
Foreign exchange contracts	–	(1.7)	–	(5.4)
Derivative financial instruments (non-hedges)	0.6	0.6	–	–

LONG-TERM DEBT AND SHORT-TERM DEBT

The fair value of Emera's long-term and short-term debt is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to Emera, for debt of the same remaining maturities.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is estimated by obtaining prevailing market rates from investment dealers.

Interest Rates

The Company enters into interest rate hedging contracts that convert the interest characteristics of outstanding short-term debt from a floating to a fixed rate basis. Interest rate swap contracts converting floating interest on $320 million over 2003 to 2005 (2001 – $414.0 million over 2002 and 2003) to a weighted average fixed interest rate of 5.68% (2001 – 5.30%) were outstanding at December 31, 2002.

Interest rate caps and collars are used to insure against extreme movements in interest rates on floating debt. Interest rate collar contracts covering $20 million (2001 – $20 million) at average fixed interest rates in a range from 5.35% to 5.75% (2001 – 5.35% to 5.75%), and interest rate cap contracts covering $nil (2001 – $70 million) at weighted average fixed interest rates of nil (2001 – 6.71%) were outstanding at December 31, 2002.

Commodity Prices

The Company purchased natural gas option contracts and entered into natural gas swap contracts in 2002 to limit exposure to fluctuations in natural gas prices. As at December 31, 2002, the Company had hedged substantially all natural gas purchases and sales for 2003.

The Company enters into oil swap and option contracts to limit exposure to fluctuations in world prices of heavy fuel oil. As at December 31, 2002, the Company had entered into oil swap contracts that fix the price of approximately 70% of 2003 requirements along with a portion of 2004 requirements.

The Company also entered into option contracts for the physical delivery of natural gas and coal.

On occasion the Company purchases non-hedging derivative financial instruments whose value is marked-to-market at each reporting date. On December 31, 2002 the Company held natural gas and oil futures, and electric power swap contracts, which were marked-to-market.

Foreign Exchange

Emera enters into foreign exchange forward, option, and swap contracts to limit exposure to currency rate fluctuations. Currency forwards are used to fix the Canadian dollar cost to acquire U.S. dollars, reducing exposure to currency rate fluctuations. Forward contracts to buy U.S. $79 million over 2003 and 2004 (2001 – US $120 million for 2002) at a weighted average rate of CAD $1.5516

(2001 – CAD $1.5392), and to sell $nil (2001 – US $35 million for 2002) at an average rate of $nil (2001 – CAD $1.5797) were outstanding at December 31, 2002. There were also option contracts to sell U.S. $110 million over 2003 to 2007 (2001 – US $55 million over 2002 to 2005) at rates in a range stretching from CAD $1.5600 in 2003 to $1.6703 in 2007 (2001 – range of CAD $1.5500 in 2002 to $1.6075 in 2005) outstanding at December 31, 2002.

Other

Bangor Hydro entered into a weather temperature contract that limits revenue losses from the impact of warmer weather during the winter heating season. At December 31, 2002, the Company limited a significant portion of the exposure for part of the fourth quarter of 2002 and the first quarter of 2003.

RISK MANAGEMENT

Interest rate risk

The Company makes use of various financial instruments to hedge against interest rate risk, as discussed above. Additionally, the Company uses diversification as a strategy. It maintains a portfolio of debt instruments which includes short-term instruments and long-term instruments with staggered maturities. The Company also deals with several counterparties so as to mitigate interest rate concentration risk.

Credit risk

The Company is exposed to credit risk with respect to amounts receivable from customers. Credit assessments are conducted with respect to, and deposits are requested from, many new customers. The Company also maintains provisions for potential credit losses, which are assessed on a regular basis. With respect to customers outside of the sphere of electric customers, counterparty creditworthiness is assessed through reports of credit rating agencies or other available financial information.

19. FOREIGN EXCHANGE TRANSLATION ADJUSTMENT

millions of dollars	2002	2001
Balance, beginning of year	$ 6.0	–
Effect of exchange rate changes	(3.1)	$ 6.0
Balance, end of year	$ 2.9	$ 6.0

20. COMMITMENTS

Emera had the following significant commitments at December 31, 2002:

- NSPI has an annual requirement to purchase approximately $15 million of electricity from independent power producers for each of the next twenty-five years.
- NSPI is required to purchase approximately 60 million cubic feet of natural gas per day for the next eight years, and an additional 4 million cubic feet per day, at the option of the supplier, for five years.
- NSPI has commitments to purchase approximately 65,000 mmbtu per day of transportation capacity on the Maritimes & Northeast Pipeline for periods ranging from nine to nineteen years at an approximate cost of $16 million per year.
- Bangor Hydro has various contracts committing it to purchase annually approximately $28 million of electricity for fifteen years from independent power producers.
- NSPI is responsible for managing a portfolio of approximately $1.2 billion of defeasance securities held in trust. The defeasance securities must provide the principal and interest streams of the related defeased debt. Approximately 69%, or $0.8 billion, of the defeasance portfolio consists of investments in the related debt, eliminating all risk associated with this portion of the portfolio.

21. COMPARATIVE INFORMATION

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted for 2002.

OPERATING STATISTICS

Five-year Summary

Years Ended December 31	2002	2001	2000	1999	1998
Electric energy sales (GWh)					
Residential	4,401.6	3,901.7	3,632.1	3,494.6	3,377.9
Commercial	3,401.8	2,862.3	2,661.9	2,582.8	2,485.9
Industrial	4,225.9	3,952.5	3,917.2	3,834.8	3,423.7
Other	1,641.8	654.1	445.0	453.2	484.4
Total electric energy sales	13,671.1	11,370.6	10,656.2	10,365.4	9,771.9
Sources of energy (GWh)					
Thermal – coal	8,861.6	8,854.8	8,863.7	7,816.0	7,015.0
– oil	289.2	690.8	1,347.8	1,870.9	2,358.3
– natural gas	1,578.7	1,129.1	43.8	–	–
Hydro	1,108.7	692.2	881.2	980.7	890.9
Wind	0.3	–	–	–	–
Purchases	2,765.9	776.6	295.2	411.3	242.0
Total generation and purchases	14,604.4	12,143.5	11,431.7	11,078.9	10,506.2
Losses and internal use	933.3	772.9	775.5	713.5	734.3
Total electric energy sold	13,671.1	11,370.6	10,656.2	10,365.4	9,771.9
Electric customers					
Residential	501,233	492,256	400,653	397,406	394,012
Commercial	47,914	46,974	32,186	31,753	31,942
Industrial	2,325	2,292	2,194	2,118	2,096
Other	11,663	10,932	7,073	6,760	6,343
Total electric customers	563,135	552,454	442,016	438,037	434,393
Capacity					
Generating nameplate capacity (MW)					
Coal Fired	1,272	1,272	1,272	1,272	1,272
Dual Fired	250	250	250	–	–
Heavy Fuel Oil-Fired	100	100	100	350	350
Gas Turbine	201	201	180	180	180
Hydroelectric	381	381	381	381	381
Wind Turbine	1	–	–	–	–
Independent power producers	66	66	25	25	25
	2,271	2,270	2,208	2,208	2,208
Total number of employees	2,557	2,666	2,134	1,912	1,954
km of transmission lines	6,138	6,134	5,250	5,250	5,250
km of distribution lines	31,344	31,968	24,000	24,000	23,711

CONSOLIDATED FINANCIAL INFORMATION

Five-year Summary

Years Ended December 31 (millions of dollars)	2002	2001	2000	1999	1998
Statement of Earnings Information					
Revenue	$ 1,226.9	$ 1,003.9	$ 896.5	$ 816.6	$ 773.1
Cost of operations					
Fuel for generation and power purchased	453.2	341.6	273.9	267.5	257.3
Cost of fuel oil sold	57.3	60.5	67.7	15.3	14.0
Operating, maintenance and general	291.9	194.7	168.0	155.5	142.5
Grants in lieu of property taxes	15.2	13.2	11.0	8.9	5.5
Provincial capital tax	7.3	7.6	7.2	7.1	6.7
Depreciation	127.8	108.4	98.3	94.8	91.3
	952.7	726.0	626.1	549.1	517.3
Earnings from operations	274.2	277.9	270.4	267.5	255.8
Regulatory amortization	(23.0)	(9.3)	(19.0)	(23.1)	(16.7)
Allowance for funds used during construction	4.9	5.5	4.8	4.8	3.8
Equity earnings	7.0	9.6	6.0	5.3	–
Earnings before interest and income taxes	263.1	283.7	262.2	254.5	242.9
Interest	145.4	122.7	115.6	116.5	112.2
Amortization of defeasance costs	19.4	19.8	19.8	20.0	20.5
Earnings before income taxes	98.3	141.2	126.8	118.0	110.2
Income tax	4.1	14.8	12.5	6.3	13.6
Net earnings before non-controlling interest	94.2	126.4	114.3	111.7	96.6
Non-controlling interest	10.6	12.2	9.9	11.3	11.2
Net earnings applicable to common shares	83.6	114.2	104.4	100.4	85.4
Common dividends	84.4	81.0	73.2	72.2	71.1
Earnings retained for use in Company	$ (0.8)	$ 33.2	$ 31.2	$ 28.2	$ 14.3
Cost of fuel for generation – coal	$ 229.6	$ 202.9	$ 186.3	$ 184.3	$ 164.8
– oil	20.6	40.3	60.5	58.2	76.2
– natural gas	62.5	35.4	5.9	–	–
Power purchased	140.5	63.0	21.2	25.0	16.3
Total cost of fuel for generation and power purchased	$ 453.2	$ 341.6	$ 273.9	$ 267.5	$ 257.3
Balance Sheet Information					
Current asset	$ 331.7	$ 334.4	$ 196.6	$ 149.2	$ 108.3
Other assets	600.3	635.1	313.2	335.2	361.4
Investments	112.2	98.6	67.0	54.7	30.5
Property, plant and equipment	2,863.7	2,891.3	2,374.2	2,362.8	2,333.9
Total assets	$ 3,907.9	$ 3,959.4	$ 2,951.0	$ 2,901.9	$ 2,834.1
Current liabilities	$ 697.6	$ 938.9	$ 541.3	$ 448.5	$ 621.6
Other liabilities	193.0	190.2	28.0	19.3	17.6
Long-term debt	1,417.8	1,381.4	1,155.0	1,260.5	1,083.7
Non-controlling interest	267.5	267.5	249.1	231.3	200.0
Common shares	1,000.2	845.4	680.8	676.5	672.5
Foreign currency translation adjustment	2.9	6.0	–	–	–
Retained earnings	328.9	330.0	296.8	265.8	238.7
Total equity and liabilities	$ 3,907.9	$ 3,959.4	$ 2,951.0	$ 2,901.9	$ 2,834.1
Investing activities	$ 109.6	$ 566.2	$ 126.1	$ 144.0	$ 162.6
Statement of Cash Flow Information					
Operating cash flow	$ 256.0	$ 236.9	$ 231.1	$ 226.5	$ 219.2
Financial ratios ($ per share)					
Earnings per share	$ 0.85	$ 1.20	$ 1.20	$ 1.16	$ 0.99
Operating cash flow per share	2.59	2.48	2.65	2.60	2.53

Executives and Directors

EXECUTIVES

David McD. Mann
President and Chief Executive Officer

Ronald E. Smith
Senior Vice President and
Chief Financial Officer

Chris Huskilson
Chief Operating Officer
Nova Scotia Power Inc.

Wayne Rousch
Senior Vice President,
Business Development

Jim Connors
Vice President, Regulatory Affairs

Rick Smith
Corporate Secretary and
General Counsel

Liz MacDonald
Vice President, Human Resources

Ian Thompson
Vice President, External Relations

BOARD OF DIRECTORS

Derek Oland (Chairman)
Chairman and Chief Executive Officer
Moosehead Breweries Limited
New River Beach, New Brunswick

David McD. Mann, Q.C.
President and Chief Executive Officer
Emera Inc. and Nova Scotia Power Inc.
Halifax, Nova Scotia

Robert S. Briggs
Company Director
Former President and CEO
Bangor Hydro-Electric
Carrabassett Valley, Maine

George Caines, Q.C.
Nova Scotia Managing Partner
Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

Purdy Crawford, O.C.
Counsel, Osler, Hoskin & Harcourt LLP
Chair, AT&T Canada Corp.
Toronto, Ontario

R. Irene d'Entremont, C.M.
President
M.I.T. Electronics Inc. and
ITG information Management Inc.
Yarmouth, Nova Scotia

James K. Gray, O.C.
Company Director
Founder and Former Chairman
Canadian Hunter Exploration Ltd.
Calgary, Alberta

M. Edward MacNeil
Company Director
Sydney, Nova Scotia

Dr. Elizabeth Parr-Johnston
Parr Johnston Economic and
Policy Consultants
Chester Basin, Nova Scotia

Kenneth C. Rowe
Chairman and Chief Executive Officer
IMP Group International Inc.
Halifax, Nova Scotia

Rosemary Scanlon
Associate Professor of Economics
New York University
Economics Consultant
New York, New York

Paul D. Sobey
President and Chief Executive Officer
Empire Company Limited
Kingshead, Pictou County, Nova Scotia

COMMITTEES

Audit

George A. Caines (Chair)
Robert S. Briggs
Kenneth C. Rowe

Environment, Safety and Security

R. Irene d'Entremont (Chair)
James K. Gray
M. Edward MacNeil

Management Resources and Compensation

Purdy Crawford (Chair)
R. Irene d'Entremont
Dr. Elizabeth Parr-Johnston

Nominating and Corporate Governance

Paul D. Sobey (Chair)
James K. Gray
Rosemary Scanlon

Shareholder Information

DIVIDEND PAYMENTS IN 2003

Subject to Approval by the Board of Directors, common share dividends for Emera Inc. are payable on or about the 15th of February, May, August and November. A first quarter dividend of $0.2150 has been declared payable February 14, 2003.

A quarterly dividend of $0.30625 is payable on the first day of January, April, July and October for Nova Scotia Power Inc.'s Series C First Preferred Shares.

A quarterly dividend of $0.36875 is payable on the 15th of January, April, July and October for Nova Scotia Power Inc.'s Series D First Preferred Shares.

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

Emera's Dividend Reinvestment and Share Purchase Plan is available to shareholders resident in Canada. The Plan provides shareholders with a convenient and economical means of acquiring additional common shares through the reinvestment of dividends. Plan participants may also contribute cash payments of up to $5,000 per quarter. Participants of the Plan pay no commissions, service charges, or brokerage fees for shares purchased under the Plan.

Please contact Investor Services if you have questions or wish to receive a copy of the plan brochure and enrollment form.

DIRECT DEPOSIT SERVICE

Shareholders may have dividends deposited directly into accounts held at financial institutions that are members of the Canadian Payments Association. To arrange this service, please contact Investor Services.

EARNINGS REPORTED

Quarterly earnings are expected to be announced April 24, July 30 and November 7, 2003. Year-end results for 2003 will be released in February 2004.

ANNUAL GENERAL MEETING

The Annual General Meeting is scheduled to be held April 24, 2003 at 2:00 p.m. (Atlantic Time) at the World Trade and Convention Centre in Halifax, Nova Scotia.

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FINANCIAL ANALYSTS, PORTFOLIO MANAGERS AND INSTITUTIONAL INVESTORS

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SHARE LISTINGS

Toronto Stock Exchange (TSX)
Common Shares: EMA
Preferred Shares: NSI.PR.C, NSI.PR.D

SHARES OUTSTANDING

(as at December 31, 2002)
Common Shares: 107,798,670

DIVIDENDS PAID IN 2002

$0.86 per Common Share

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